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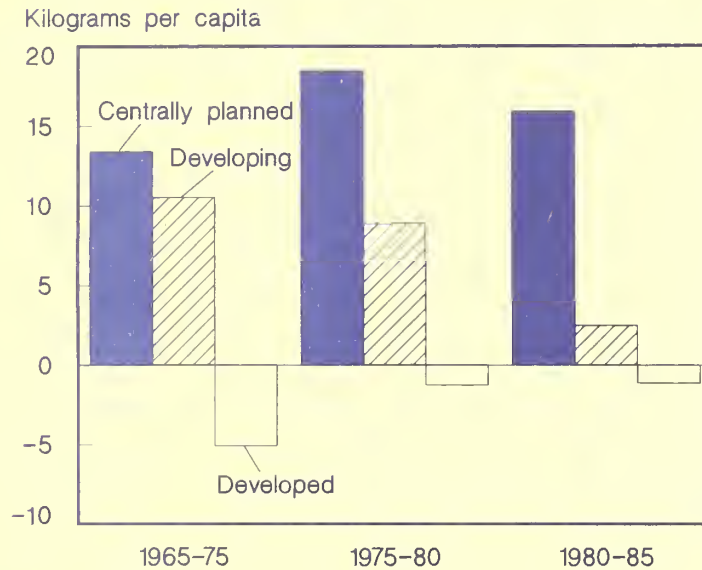
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March 1986

World Agriculture

Outlook and Situation Report

Growth in Food Grain Consumption Slowing



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Note: Tons are metric, dollars are U.S., and rice is on a milled basis unless specified otherwise.

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SUMMARY

Total world food production rose again in 1985, exceeding 1984's record. Over the past 10 years, food production has generally increased faster than population. Notable exceptions include Sub-Saharan Africa. Per capita food production has also gained over the past decade, supported by large increases in China the past 4 years. Per capita output excluding China, however, declined 0.2 percent annually. In the past decade, per capita food production declined in half of the 111 countries reporting, including 29 in Africa.

The composition of food production around the world has been changing over the past 35 years. Cereals, oilseeds, and meats have increased significantly, and sugar slightly, while root crops, pluses, and milk declined. In the United States, cereals and oilseeds have become a bigger portion of total food production, while milk and eggs have accounted for less. Asia reduced its proportion of cereals and increased that of meats, primarily chicken. European countries have increased their share of meat products and cut the share of roots and tubers.

Over the last 3 years, China and the United States led the world in food production. However, China has about 22 percent of the world's population, compared with the United States' 5 percent. Therefore, even though the United States produces only about 15 percent of the world's food, it is the leading food exporter, particularly of cereal grains.

The United States produces almost 20 percent of the world's cereals, but uses only two-thirds of its domestic output, leaving the rest for stocks or exports. Developing countries consume one-third of the world's cereals, 5 percentage points more than they produce. These countries import almost half of U.S. cereal exports.

Global per capita food use of wheat and rice gained significantly since 1965, but the rate of increase slowed in the 1980's. Consumption of these food grains grew in the developing countries, especially during the

1970's, when world income rose rapidly. In the developed countries, however, per capita consumption fell, declining faster during years of high income growth as more of consumers' food dollars went to upgrading diets with more expensive items, such as meat.

Animal products constitute 15 percent of global average caloric intake, with meat and offals accounting for 7 percent; milk, 4; fats and oils, 2; and eggs and fish, 1 percent each. As for meat and offals, 53 percent of the calories comes from pork; 27 from beef and veal; poultry, 10; lamb, mutton, and goat, 5; and other meat and offal, 5 percent. People in Oceania, North America, and Europe ingest over 30 percent of their total calories in animal products, compared with 8 percent for Africans and 6 percent for South, East, and Southeast Asians (excluding Japanese and Chinese).

During 1979-1981, world per capita caloric consumption per day averaged 2,361. Although not the highest, U.S. intake was 3,641, compared with 3,454 in Europe, and 3,360 in the USSR. At the lower end were Africa (excluding North and South Africa) at 2,186 and South Asia with 2,048.

To help meet basic food needs, almost 11 million tons of cereals will be donated in 1985/86, with about 85 percent going to low-income, food-deficit countries. U.S. shipments will constitute about two-thirds of all cereal aid. The European Community, the second largest donor, will provide almost 15 percent.

The food assistance needed to meet minimum nutritional needs in the 69 developing countries studied in the latest World Food Needs and Availabilities report declined sharply in 1985/86 and continues to fall in 1986/87, largely because of the greatly improved food situation in Africa. In 16 of 20 Sub-Saharan countries with national food emergencies last year, domestic cereal supplies have returned to normal. However, severe food shortages continue in Ethiopia, Angola, Mozambique, and Cape Verde.

Storage and distribution constraints on large volumes of food imports limit the progress that could be made in meeting these food needs, especially in East and Southern Africa and in South Asia— particularly Ethiopia, Mozambique, and Bangladesh. These constraints would allow the 69 developing countries to absorb only an estimated 18 million of the 22.6 million tons of cereals needed to meet minimal nutritional standards in 1985/86.

WORLD ECONOMIC CONDITIONS

Global Assessment

Growth To Slow in 1986

Economic growth for the world, excluding the United States, in 1986 will likely slow for the second consecutive year. Growth will be around 2.9 percent, compared with 3 percent in 1985 and 3.1 percent in 1984. A major factor behind this slowdown is the slower U.S. growth since 1984, which has dampened U.S. demand for other countries' exports. Moreover, the dollar's decline in value since February 1984 has begun to increase U.S. prices for imports, contributing further to the slowdown in volume. In addition to the slowdown in U.S. import growth, the major factors supporting the outlook include declining petroleum prices, lower rates of inflation in much of the world, and changes in the dollar's value.

Despite the projected slowing of overall activity this year, domestic demand is likely to play a larger role in many countries' growth. Thus, the slowdown is not apt to have a large effect on demand for agricultural goods. Worldwide demand for agricultural goods may well begin to rise because of the 30-percent decline in the dollar since last February. Foreign currency prices for U.S. agricultural exports in some markets have declined by as much as the dollar's fall. During 1986, prices for most commodities can be expected to drop even more because of the legislated decline in U.S. loan rates and the Secretary's decision to lower loan rates even more.

Several factors are supporting growth in 1986. Chief among these is the recent decline

in world petroleum prices. This drop in oil prices, magnified in many countries by the appreciation of their currencies against the dollar, will help accelerate income growth in much of the world. A second factor is the continuing low rate of inflation in the industrialized world. Low inflation, as well as the expectation that inflation will remain low, has allowed monetary officials to control money supplies within moderate rather than recession-creating bounds.

Oil Price Decline Doubles Mexico's Credit Needs

Some countries that depend on petroleum exports to finance imports and debt repayments are in a worsening position. Mexico, for example, doubled its requests for additional international credits for 1986, following a \$4-a-barrel decline in its export prices. The drop in oil export prices to \$15.07 a barrel in February, down \$8.68 since January 31, has boosted Mexico's new credit needs to \$8 to \$9 billion, up from \$4.8 billion. The need for added funds, the economic measures that Mexico might undertake in order to qualify for them, and the 10-percent peso devaluation following the price cut could reduce commercial sales of U.S. agricultural products.

Globally, the declines in oil prices will likely have beneficial effects on regional growth and inflation rates as early as this year. Oil price reductions of 30 percent or more, combined with currency appreciations of roughly the same magnitude for several major currencies, have resulted in potential savings of 50 percent or more for petroleum importers. Future changes in oil prices will likely depend the most on how quickly the Organization of Petroleum Exporting Countries (OPEC) is able to impose discipline on itself and on non-OPEC oil-exporting countries. Strengthening demand for oil will probably not raise oil prices significantly this year or next, given the still-low growth rates in Europe.

Dollar Depreciation Not Uniform

The future value of the dollar reflects a second uncertainty, complicated in part by movements in oil prices. Changes in the dollar's value will especially affect those

countries whose growth depends on exports to the United States or to markets that purchase U.S. exports. U.S. imports could decline this year, reducing other countries' export earnings below what they would be otherwise.

Price changes resulting from the uneven movement of the dollar against a broad range of currencies will diversely affect U.S. demand for goods from different regions. U.S. demand for Japanese goods is apt to decline relative to that for Canadian, Brazilian, and Korean goods, among others. Japan's yen has appreciated 30 percent since its peak last February; during the same time, Canada's dollar has depreciated about 2 percent, and Korea's won has depreciated 4 percent. In response, Japan's exporters, especially of autos and electronic goods, are widely recognized to be raising the dollar prices of their U.S.-bound exports. Exporters in Canada, Brazil, and Korea are not reported to be raising dollar-denominated export prices.

The expected continuing slowdown or decline in U.S. imports this year could exert a drag on Japan's economic growth. In 1984, 6.6-percent U.S. real growth helped stimulate a 39-percent increase in the value of Japan's exports to the United States. U.S. purchases accounted for one-third of Japan's 6-percent expansion of nominal income. In 1985, U.S. real growth slowed to 2.3 percent, and total imports increased only slightly. Japan's exports to the United States increased an estimated 6 percent.

For the oil-importing developing countries, the decline in oil prices will likely provide a much needed stimulus to growth. Several major indicators from 1985 reflect the stagnation of economic conditions in much of the developing world. Dollar prices for internationally traded commodities declined 12 percent in 1985, after rising slightly last year. The 12-percent drop in 1985 brings commodity prices to 72 percent of their 1980 highs. Increases in trade volumes, the data for which are not available, have apparently been insufficient to overcome the declines in prices.

For Asia, the Middle East, and Latin America, export values, expressed in dollars, through the first half of 1985 declined from a year earlier 2, 10, and 12 percent,

respectively. Asia and Latin America's imports, a broad measure of their domestic economic activity, declined from the second half of 1984 by 2 and 4 percent, respectively. [Art Morey (202) 786-1687]

Dollar Exchange Rates

Oil Prices Affect Currencies

Sharply falling world petroleum prices since January have affected the foreign currency value of the dollar. Energy-related currencies, such as the British pound and the Canadian dollar, have depreciated against the U.S. dollar.

Lower oil prices and inflation prospects improve the outlook for the U.S. economy, exports, and dollar. The beneficial impact of lower oil prices for energy importers is greater for economies where oil imports play a major role in the economy, such as Japan and Germany. These currencies have continued strong against the U.S. dollar.

U.S. agricultural markets among oil-importing developing countries will also benefit. However, many of these countries continue to export more than they import to repay their debt burdens. In addition, the dollar has depreciated less against many of these countries' currencies than against those of industrial nations.

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	Can\$
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.198
1982	2.427	248.8	.5722	2.669	1.233
1983	2.554	237.4	.6597	2.853	1.232
1984	2.847	237.6	.7517	3.209	1.295
1985	2.942	238.3	.7790	3.319	1.365
Jan.	3.169	254.1	.8861	3.579	1.324
Feb.	3.300	260.2	.9141	3.734	1.354
Mar.	3.296	257.8	.8903	3.724	1.383
Apr.	3.087	251.5	.8066	3.490	1.364
May	3.103	251.6	.8001	3.510	1.375
June	3.062	248.8	.7817	3.450	1.367
July	2.906	241.1	.7241	3.270	1.352
Aug.	2.792	237.3	.7226	3.151	1.357
Sept.	2.836	236.2	.7329	3.190	1.369
Oct.	2.643	214.6	.7031	2.980	1.366
Nov.	2.594	203.8	.6946	2.921	1.376
Dec.	2.511	202.7	.6919	2.829	1.395
1986					
Jan.	2.437	199.8	.7014	2.746	1.407
Feb.	2.330	184.8	.6999	2.632	1.404
Mar. 1/	2.253	178.3	.6821	2.541	1.401

1/ Preliminary.

Against the major industrial currencies, the dollar decline appears to have stabilized some, with indications from the United States, Japan, and Germany that world economic activity needs to adjust further to the lower value of the dollar before new declines. These countries play a pivotal role in the G-5 group (the United States, Japan, Germany, France, and the United Kingdom), whose finance ministers and central bank governors announced in September their intention to see an orderly appreciation of the non-dollar currencies continue against the U.S. dollar.

Interest Rates

The recent G-5 meeting in January agreed that the progress to date on the value of the dollar should not be reversed. They did not announce publicly any coordinated agreement to lower interest rates, as was widely expected at the time. Nonetheless, in early March the German central bank reduced its discount rate, followed directly by discount rate reductions by France, the Netherlands, Japan, and the United States.

British and Canadian interest rates have increased substantially since January, when energy prices began falling, to stem further currency depreciation. Increases in British base lending rates to over 12 percent arrested the pound's near 10-percent depreciation against the dollar between early December and February, leaving the British pound near its average value since October, around 0.70 pounds per dollar (U.S. \$1.43 per pound).

The Canadian prime rate has risen more than 3 percentage points since January, to 13.5 percent, curtailing depreciation of the Canadian dollar. The Canadian dollar declined to Can\$1.44 per U.S. dollar on February 4, before the Canadian central bank intervened to restore its currency to nearer Can\$1.40. A factor weakening the Canadian dollar is the lack of resolve to reduce the Canadian Government's budget deficit, proportionally twice as large as that in the United States.

In contrast, low interest rates in Germany and Japan following their discount rate reductions to 3.5 and 4 percent, respectively, maintain the interest rate differential in favor of U.S. dollar assets, even following the Federal Reserve discount rate cut to 7 percent.

The U.S. Federal Reserve has indicated it would rather see foreign economic expansion increase demand for U.S. exports and the dollar than expand the U.S. money supply. Expansionary monetary policy might further lower the dollar's value, but risk precipitating increases in U.S. inflation. Japan and Germany are attempting to induce increases in private demand to replace reductions in their fiscal deficits by lowering interest rates, rather than using fiscal stimulus to expand their economies.

Wider interest rate differentials in favor of the dollar would slow further declines in the dollar. However, further dollar depreciation is possible, provided lower interest rates in both the United States and abroad leave this gap insufficient to attract capital into dollar assets.

Since its high in February 1985, the dollar has fallen more than 30 percent against the yen and the mark, with most of the decline since late September in the case of the yen. Japan has indicated that the appreciation to 175-180 yen per dollar was too rapid, implying a lesser rate as preferable. Germany also wishes to retain an exchange rate near 2.3 to 2.4 marks per dollar, rather than see further weakening of the dollar. However, the fall in world energy prices may keep the British pound and the Canadian dollar from strengthening against the U.S. dollar. [Ted Wilson (202) 786-1688]

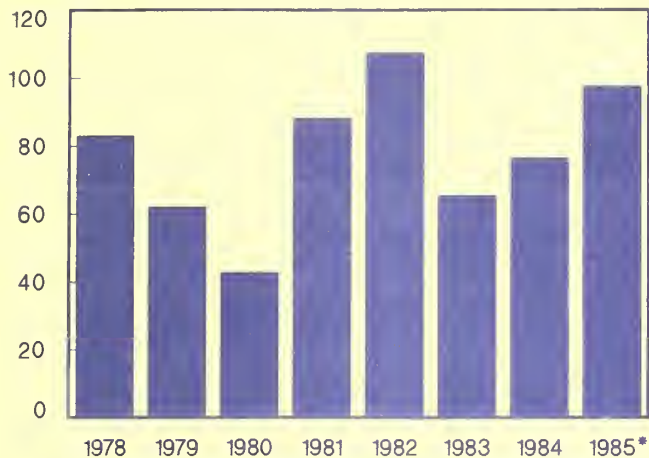
World Shipping

Cargo Preference on CCC Exports

Until recently, cargo preference (the practice of requiring cargo that is owned or concessionally financed by the U.S. Government to be carried on U.S.-flag ships) had been applied to 50 percent of USDA's Food for Peace (P.L. 480) concessional sales and donations, as well as donations under Section 416 of the Agricultural Act of 1949. Cargo preference had not been applied to USDA's various export promotion programs. However, in February 1985, the U.S. District Court for the District of Columbia ruled that cargo preference was also to be applied to USDA's blended credit program.

P.L. 480 Ocean Freight Differential Costs are Substantial

Million dollars



* Represents "Approved" as opposed to "Obligated" expenditures.

After the U.S. District Court ruling, USDA announced the suspension of approval of all sales registrations under the blended credit program, and the Administration announced its support of Congressional legislation that would exempt all commercial export activities of USDA's Commodity Credit Corporation from cargo preference requirements.

Cargo Preference Compromise Enacted

In response to the growing cargo preference controversy, Senator Robert Dole encouraged several meetings between representatives of maritime and agricultural groups in June 1985. As a result of the meetings, a compromise was formulated. USDA's export promotion programs would be exempt from cargo preference requirements in exchange for the reservation of a higher proportion of P.L. 480 cargoes for U.S.-flag vessels. The compromise subsequently became part of the recently enacted Food Security Act of 1985, P.L. 99-198.

Under P.L. 99-198, the amount of agricultural concessional cargoes reserved for U.S.-flag vessels will increase from 50 to 75 percent, phased in over 3 years starting on April 1, 1985. Also, the Department of Transportation is mandated to pay the costs associated with the additional 25-percent reservation. If the funds are not available, the so-called "snapback" provision would come into play, and the cargo preference

requirements applicable to agricultural exports would return to 50 percent of P.L. 480 cargoes, as well as 50 percent of USDA's commercial (blended credit) export promotion cargoes.

Administration Seeks To Repeal Compromise

The Administration's fiscal 1987 budget prohibits the Secretary of Transportation from "issuing obligations to finance the increased costs pursuant to Public Law 99-198" in 1986 and 1987. Citing its long standing opposition to expanding existing cargo preference requirements, the Administration further stated that it will be proposing legislation to repeal the compromise, which it considers to be "an unjustified additional subsidy to the maritime industry." Administration figures projected that if the Congress does not act on the Administration's legislative proposal, the Secretary of Transportation will be required to borrow an "estimated \$48 million in 1986 and \$120 million in 1987" to finance the costs of the compromise. [Kay McLennan (202) 786-1624]

U.S. AGRICULTURAL TRADE

In 1985, U.S. agricultural exports underwent one of their largest annual adjustments to date, with export volume falling more than 27 million tons. Only in 1973 did a larger change occur, when volume rose more than 33 million tons. The lower export volume and declining world prices reduced export value \$8.7 billion to \$29.1 billion. The declining export value and an increasing import value reduced the U.S. agricultural trade surplus to \$9.6 billion, its lowest since 1973.

U.S. World Trade Share Slips

The decline in U.S. farm product exports—now at their lowest in nearly a decade—partly reflects developments affecting all exporters; however, the relative U.S. position has deteriorated. In 1985, economic growth fell in the foreign industrialized economies, the largest U.S. market abroad. Furthermore, 1985 was the third year of the last 5 with falling commodity prices and a growth rate for world trade volume that failed to exceed growth in world gross national product (GNP).

U.S. agricultural export values 1/

Commodity	1982	1983	1984	1985
Billion dollars				
Grains and preparations	15.6	16.2	17.2	11.9
Wheat	6.7	6.2	6.5	3.6
Wheat flour	.2	.3	.2	.2
Feed grains	6.4	7.2	3.1	6.0
Rice	1.0	.9	.8	.7
Feeds and fodders	1.0	1.2	1.2	1.1
Oilseeds and products	9.1	8.7	8.4	5.8
Soybeans	6.2	5.9	5.4	3.7
Soybean cake and meal	1.4	1.5	1.0	.9
Soybean oil	.5	.4	.8	.4
Animals and products	3.9	3.8	4.2	4.1
Hides and skins	1.0	1.0	1.4	1.3
Red meats, incl. offals	1.0	.9	.9	.9
Animal fats	.7	.6	.7	.6
Poultry products	.5	.4	.4	.4
Dairy products	.3	.4	.4	.4
Fruits, vegetables, and nuts	2.9	2.6	2.6	2.6
Cotton, incl. lint	2.0	1.8	2.4	1.6
Tobacco	1.5	1.5	1.5	1.5
Other	.6	.3	.3	.4
Total	36.6	36.1	37.8	29.0

1/ Calendar years.

U.S. agricultural export volume 1/

Commodity	1982	1983	1984	1985
Million metric tons				
Wheat	40.8	38.4	42.2	24.8
Wheat flour	.8	1.7	.9	.9
Feed grains	56.2	54.3	57.7	51.3
Rice	2.6	2.4	2.2	2.0
Feeds and fodders	6.1	7.3	7.0	6.7
Soybeans	25.5	22.7	19.5	16.9
Soybean meal	6.2	6.5	4.4	4.7
Soybean oil	.9	.8	1.0	.6
Other oilcake and meal	.2	.2	.2	.1
Other vegetable oils	.7	.7	.6	.6
Sunflowerseed	1.5	.8	1.5	.5
Cotton, including lint	1.4	1.3	1.5	1.1
Tobacco	.3	.2	.2	.2
Fruits, vegetables, & nuts	4.0	3.7	3.5	3.3
Beef, pork, & variety meats	.4	.4	.4	.4
Poultry meat	.3	.2	.2	.2
Animal fats	1.5	1.4	1.3	1.3
Other	2.8	1.1	2.7	3.1
Total	152.1	144.1	147.0	118.7

1/ Calendar years. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc.

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil	Soymeal 44%	
	U.S. 1/	Arg. 2/	Can. 3/	Aust. 4/	U.S. 5/	Arg. 2/	U.S. 5/	U.S. 6/	U.S. 6/	Hamburg 7/
Dollars per metric ton										
1977	105	100	116	113	98	93	271	524	212	240
1978	131	126	134	119	105	102	259	565	189	226
1979	162	159	171	142	118	117	278	610	160	254
1980	176	203	192	175	129	159	272	522	217	271
1981	176	190	194	175	135	139	272	464	223	269
1982	161	166	165	160	110	109	233	404	197	233
1983	158	138	167	161	137	133	269	518	222	255
1984	153	135	166	153	138	132	271	678	184	210
1985	137	106	171	141	114	103	214	596	140	171
Jan.	149	110	164	153	121	108	231	633	150	175
Feb.	148	111	164	150	120	106	228	649	139	163
Mar.	146	114	164	149	122	109	231	691	139	171
Apr.	146	113	174	148	122	110	231	751	130	174
May	139	112	172	145	118	109	222	715	123	165
June	134	107	173	141	117	111	222	715	122	158
July	130	107	171	134	117	112	215	636	128	159
Aug.	125	98	157	128	106	101	202	521	134	159
Sept.	128	93	164	131	103	88	200	494	144	168
Oct.	129	92	172	134	100	90	186	454	154	182
Nov.	135	98	181	139	109	95	198	448	156	188
Dec.	139	114	192	144	111	100	204	469	161	187
1986										
Jan.	133	108	181	140	108	100	210	447	168	197
Feb. 8/	131	102	175	133	105	92	207	404	169	201

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 3 yellow, f.o.b. Gulf ports. 6/ Decatur. 7/ F.o.b. ex-mill. 8/ Preliminary.

These developments contrasted strongly with the rapid rises in prices, GNP, and trade in the 1970's. In addition, the trade-weighted value of the U.S. dollar rose in real terms for the seventh consecutive year in 1985, and overseas agricultural production remained strong. With U.S. support levels for the prices of several major export commodities set above market clearing levels, U.S. stocks rose and exports fell. As a result, the United States shouldered a larger share of the agricultural trade adjustment, seeing its share drop for the fifth consecutive year. By contrast, Argentina, the United States' largest grain and oilseed competitor, saw export volume exceed previous records for the second time in 3 years.

Export Value Will Probably Fall in 1986

U.S. agricultural exports were weaker in the first 2 months of calendar 1986, compared with the same period in 1985, and are expected to remain weak throughout the first half of the year. What this means for the year as a whole is less certain. Typically, export volume peaks at the beginning and end of each calendar year. During 1986, this seasonal pattern is expected to be significantly different because of the impending changes in U.S. commodity programs. The new programs will generally mean lower export prices later in the year, and some purchases are undoubtedly being delayed until these programs come into effect. At the same time, competing exporters have an incentive to maximize sales and shipments early in the year. Together, these factors mean U.S. export volume will be more skewed towards the latter part of the year. [Stephen MacDonald (202) 786-1621]

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

World per capita food consumption of wheat and rice has shown significant gains over the past two decades, but the rate of increase has slowed in the 1980's. Consumption patterns for these food grains vary widely among countries and within populations, depending on a number of factors, including climate conditions, incomes, and the urban/rural mix.

Wheat: Per capita consumption 1/

Country	1964-66	1974-76	1979-81	1985
Kilograms per year				
Developed	95.3	92.9	91.9	91.9
U.S.	80.3	84.0	85.1	86.7
W. Europe	117.3	110.7	109.8	109.5
Japan	46.1	50.5	50.8	51.1
S. Africa	56.7	65.5	64.4	65.4
Centrally planned	97.5	100.8	113.4	121.5
East Europe	163.8	167.4	169.9	167.1
USSR	238.8	236.9	236.6	219.8
China	40.8	53.7	72.4	89.2
Developing	42.9	52.2	57.7	58.8
Latin America	52.2	58.8	59.7	56.4
Mexico	34.6	46.6	47.3	45.2
Brazil	29.1	49.4	54.2	49.4
Middle East	144.6	132.1	142.8	141.2
Iraq	124.4	169.4	199.4	212.8
Turkey	246.4	245.7	271.1	260.6
South Asia	41.7	51.5	58.0	62.1
India	36.2	44.1	51.1	55.8
Pakistan	106.3	122.9	129.6	128.3
Other Asia	24.7	35.1	39.2	40.5
Indonesia	.2	6.2	8.7	7.9
Thailand	1.4	2.1	4.1	3.3
North Africa	121.5	164.7	179.3	181.2
Algeria	130.5	179.8	186.2	187.1
Egypt	121.1	151.6	174.8	173.3
Other Africa	9.9	12.3	15.9	17.9
Nigeria	2.0	7.3	16.3	17.5
Sudan	19.4	28.4	28.9	33.7
World	71.5	75.3	80.7	82.9

1/ Average of crop years beginning in year shown. Excludes feed use but includes seed and industrial use.

Consumption Growth Slows

World per capita consumption of wheat and rice grew at a compound annual rate of 0.84 percent during the past two decades, with rice showing a 0.23 percent faster rate of growth than wheat. While rice has been able to maintain its early pace, boosted by huge gains in China, per capita wheat consumption has slowed dramatically.

World per capita wheat consumption grew 0.81 percent a year between 1965 and 1980, led by an annual gain of almost 2 percent in the developing countries. With the developing countries' gains reduced to only a fourth of this level in the 1980's, world growth slowed to only 0.54 percent.

Growth rates of less than 1 percent a year may seem insignificant until they are translated into total volume figures. With world population growing 1.9 percent a year, total consumption of wheat would have had to

Rice: Per capita consumption 1/

Country	1964-66	1974-76	1979-81	1985
Kilograms per year				
Developed	21.5	18.8	18.5	17.3
U.S.	5.4	7.0	9.0	7.9
W. Europe	3.8	4.0	4.2	4.4
Japan	120.6	95.9	88.0	81.1
South Africa	2.9	2.9	4.4	5.2
Centrally planned	58.0	68.0	73.9	81.7
East Europe	3.1	3.2	3.5	3.7
USSR	3.0	6.1	9.2	6.7
China	84.9	94.2	100.9	111.9
Developing	65.2	66.5	69.9	71.3
Latin America	26.8	26.6	30.1	28.6
Mexico	5.3	5.5	5.4	5.5
Brazil	52.8	45.3	50.8	46.9
Middle East	23.9	30.5	33.6	34.8
Iraq	14.3	25.5	36.1	39.3
Turkey	4.0	4.9	5.0	4.9
South Asia	74.6	74.8	77.7	79.8
India	68.4	70.1	74.1	77.3
Pakistan	20.4	25.7	26.4	24.7
Other Asia	204.9	212.7	223.3	233.1
Indonesia	95.5	119.7	137.0	150.2
Thailand	183.7	183.1	174.6	160.1
North Africa	15.4	19.5	18.5	17.9
Algeria	.5	.4	1.2	1.2
Egypt	28.4	37.3	35.1	33.6
Other Africa	17.1	16.7	21.3	20.7
Nigeria	4.5	5.4	13.6	14.3
Sudan	.6	.4	.7	1.0
World	53.8	58.4	62.1	65.3

1/ Average of crop years beginning in year shown.
Excludes feed use but includes seed and industrial use.

increase 107 million tons and rice 79 million to maintain 1985 per capita consumption at the 1965 level. Actual consumption growth between 1964-1966 and 1985 was 165 million tons of wheat and 135 million of rice.

Many Factors Affect Consumption

Wheat and rice consumption by individual consumers is highly influenced by incomes, tastes and preferences, availabilities, and relative prices of these food grains to other food and nonfood items. A major factor behind the increases in per capita consumption has been the development of new wheat and rice varieties and the availability of new seeds and technologies to farmers, especially in developing countries.

Impressive increases in wheat and rice production have greatly expanded supplies of these grains and have helped keep wheat and rice prices relatively low. Income growth, migration from rural to urban areas, and

export credit programs have also expanded promoted wheat and rice consumption in developing countries.

Larger Incomes Mean More Use, Then Less

Engel's law states that the proportion of a family's budget devoted to food declines as the family's income increases. Subsequent research shows that the proportion of calories that a family derives from the basic starchy staples falls with rising income, as the family diversifies its food intake to include more nongrain foods.

In the first stage, income gains lead low income consumers to increase their total consumption of grains as they shift to the preferred food grains. Therefore, the increase in wheat and rice consumption in many developing nations comes at the expense of other traditional starchy staples, such as root crops (cassava, yams), other grains (corn, millet, and sorghum), and other starches (plantains). In the second stage (as incomes rise even further), direct consumption of grain declines as consumers shift part of their diets to nongrain foods, such as meat.

Per capita consumption of wheat and rice in the developing countries expanded over the past two decades, especially during the 1970's, when world income increased rapidly. In the developed countries, however, direct per capita consumption of wheat and rice fell during the same period, declining most rapidly during years of high income growth.

Output and Imports Boost Use

Increases in per capita wheat and rice consumption in many developing and centrally planned nations are also influenced by long-term government policies to expand production, imports, or both.

For wheat, production gains in India, Pakistan, and Turkey accounted for most of the increase in their per capita consumption. In China, Brazil, and Mexico, production gains were the predominant factor behind the large consumption gains, with expanded imports playing a lesser role. For many other nations, such as Algeria, Egypt, Indonesia, Iraq, Nigeria, and the Sudan, increased per capita consumption resulted from substantially larger wheat imports. Many of these nations and

others took advantage of a variety of expanded credit and food aid programs offered by wheat exporters. On the other hand, Nigeria's large increase in per capita wheat and rice consumption during the 1970's was financed largely with oil revenues.

The increases in per capita rice consumption in nations such as China, India, Indonesia, and Pakistan were made possible by the successful adoption of higher yielding varieties and the increased use of chemicals, fertilizer, and irrigation. Large consumption increases in Iraq in recent years were the direct result of short-term credit guarantees offered by the United States. [Scott Reynolds (202) 786-1691]

Coarse Grains

Coarse grains' importance in the diets of many of the world's consumers is often understated. While two-thirds of the world's coarse grain use will go for animal feeding in 1985/86, per capita nonfeed use is only 25 percent below wheat and 10 percent less than rice. However, with coarse grain consumption remaining fairly stable during the past two decades and food grains increasing sharply, its relative importance has declined.

Some countries use most of their coarse grain supplies for domestic feed or exports—consuming little as food. Many others, however, consume coarse grains as food out of necessity. Their ability to upgrade diets is limited by sluggish domestic economic growth and an inability to generate required hard currency for imports. Many of these countries are also likely to have an underdeveloped and inefficient livestock sector whose demand for feed grains is relatively small.

Sudan, Mexico, the United States, and South Africa are leaders in per capita nonfeed use of coarse grains, 2 to 2.5 times the world average. Nonfeed consumption in the United States is inflated by industrial uses, including the production of corn sweeteners, ethanol, and beer, as well as extensive seed use. This expanding industrial use is the primary reason for the doubling of U.S. per capita nonfeed use since 1965.

With the exception of the United States and South Africa, coarse grain use is relatively

low in the developed countries. Corn is a staple in the South African diet, although a prolonged drought dramatically reduced consumption in recent years.

The developing nations have the least average per capita consumption, although two countries stand out—Mexico and Sudan—each consuming over 150 kilograms per capita. Corn flour accounts for the bulk of the consumption in Mexico, but corn and other coarse grains are also used for beer and starch. However, nonfeed per capita consumption for Latin America as a whole is low.

The Sudan relies on sorghum for much of its food, and this was the primary food donated by the United States and other countries to fight the recent famine. Per capita nonfeed consumption in the Sub-Saharan region is the highest for all the developing regions, and is substantially higher than the developing nations' average.

Coarse grains: Per capita consumption 1/

Country	1964-66	1974-76	1979-81	1985
Kilograms per year				
Developed	55	66	65	86
U.S.	72	82	107	143
W. Europe	48	63	65	63
Japan	17	20	26	31
South Africa	167	154	149	121
Centrally planned	108	123	114	108
East Europe	111	105	104	109
USSR	106	133	119	108
China	NA	NA	NA	NA
Developing	48	50	48	44
Latin America	69	68	67	61
Mexico	160	170	178	158
Brazil	46	36	31	31
Middle East	57	49	33	24
Iraq	93	46	46	26
Turkey	69	62	43	38
South Asia	33	35	35	32
India	49	44	40	37
Pakistan	21	18	18	17
Other Asia	23	23	24	24
Indonesia	27	17	22	25
Thailand	1	4	3	1
North Africa	104	110	81	56
Algeria	22	58	25	22
Egypt	108	82	67	23
Other Africa	105	102	95	96
Nigeria	127	114	96	91
Sudan	102	137	121	152
World	57	62	59	60

NA = Food use not available.

1/ Average of crop years beginning in year shown. Excludes feed use but includes seed and industrial use.

Per capita nonfeed consumption for most other developing countries since the mid-1960's has either fallen or remained relatively flat. Significant declines have occurred in the Middle East and North Africa, while there has been little or no growth in Asia.

Thailand, a major coarse grain export competitor, consumes the least amount per capita on a nonfeed basis with an average of only 3 to 4 kilograms per capita annually. Thai policy is to either feed or export almost the entire annual production.

Per capita consumption among the centrally planned countries, excluding China, has averaged 110 to 115 kilograms annually during the last 20 years. Typical diets in both the Soviet Union and Eastern Europe depend largely on coarse grains. As these countries continue their efforts to improve their diets, these estimates should slowly begin to fall. To date, however, the trend has been flat, with annual fluctuations coinciding largely with production gains or losses. [James Cole (202) 786-1691]

Vegetable Oils

The consumption of vegetable oils is highly correlated with population and income growth. The past 10 years have been characterized by rapid gains in oil crop production and population, while economic growth and development were only strong through 1980 but weak afterwards. Global vegetable oil use has been affected more by cultural factors and per capita income around the world than by vegetable oil prices and supplies.

Oil-bearing crop output has burgeoned over the past decade, especially palm, rapeseed, and sunflowerseed. Vegetable oils meet a spectrum of consumer needs. For consumers at subsistence levels of total food intake, the highly caloric vegetable oils help fulfill basic nutrition requirements. Vegetable oils provide essential fatty acids that assist the body in absorbing nutrients. Consumers at higher incomes also use vegetable oils as a complement to a variety of other foods. Therefore, food demand for vegetable oils ranges from high growth potential in some markets to limited potential in many developed-country markets.

Growth in per capita consumption has been the greatest in the centrally planned nations (Eastern Europe, the USSR, and China), which doubled consumption over the decade. Consumption grew more rapidly in the developing regions than in the developed nations.

India Makes Large Advances

Consumption of vegetable oils in the developing countries has generally increased. India, the world's largest importer of vegetable oils, is a prime example. Since 1980, India's domestic oilseed output increased significantly as the Government continued to reduce imports through oilseed price support programs and development and promotion of oilseed production technology.

India's per capita consumption of vegetable oils rose at nearly twice the average rate of the developing nations but has slowed since 1980. The country's per capita consumption may decline this year, as the Government seeks to strengthen producer price incentives by slowing vegetable oil imports. Abnormally large imports in 1984 and 1985 led to depressed domestic oilseed prices and rising oil stocks, as well as increased consumption. One of the main goals of the Government's import substitution program is to strengthen domestic oilseed prices to stimulate growth in oilseed area and investment in new technology. The fall in domestic oil prices following large imports was the first since 1977. The drop in edible oil imports and use in 1985/86 will be accomplished primarily by restricting the use of imported oils, principally soybean oil, in the production of vanaspati.

The Indian Government will likely continue to place high priority on boosting oilseed production because of the need to reduce foreign exchange outlays for edible oils, now the third largest import bill.

Low Petroleum Prices Hurt Vegetable Oils

Other developing countries are struggling to maintain consumption of vegetable oils. Among the developing countries, Nigeria is one which pulls down the average rate of increase for this category. Over the past 10 years, large petroleum revenues were

stimulating economic growth, and Nigeria's per capita vegetable oil consumption rose roughly 4 kilograms per person between 1974-1976 and 1979-1981. However, since then peanut production declined for many years, and per capita consumption returned to the level of the mid-1970's. Furthermore, Nigeria may have difficulty rebuilding per capita consumption, because of the likelihood of declining economic growth resulting from the dramatic fall in petroleum earnings.

Mexico nearly tripled per capita consumption of vegetable oils over the course of the decade—a result of the growth in economic development. However, like Nigeria, falling petroleum prices will adversely affect income growth and demand. However, the amount of credit allocated to Mexico for vegetable oils under the U.S. GSM-102 credit guarantee program has been raised by lowering the allocation for feed grains. Therefore, vegetable oil use may be sustained better than other consumption needs.

Vegetable oils: Per capita consumption 1/

Country	1974-76	1979-81	1985
Kilograms per year			
Developed	14.34	16.31	17.61
U.S.	20.81	22.52	23.80
W. Europe	12.72	14.53	15.62
Japan	9.63	12.05	13.49
South Africa	6.22	8.03	7.75
Centrally planned	4.25	4.81	8.68
East Europe	9.10	11.01	12.65
USSR	10.72	11.75	12.11
China	1.76	2.19	3.68
Developing	5.43	6.19	7.82
Latin America	7.88	10.67	11.39
Mexico	5.14	8.64	11.38
Brazil	9.01	13.21	12.96
Middle East	6.98	8.43	11.61
Iraq	10.12	11.40	14.84
Turkey	9.36	10.34	13.55
South Asia	4.26	5.24	5.95
India	4.52	5.41	6.04
Pakistan	5.39	8.30	10.04
Other Asia	3.87	5.94	7.97
Indonesia	5.03	7.45	9.69
Thailand	1.43	2.44	3.03
North Africa	8.17	10.00	12.42
Algeria	7.62	10.46	13.30
Egypt	9.14	10.72	13.16
Other Africa	6.18	6.71	5.73
Nigeria	8.82	10.43	7.75
Sudan	8.34	8.37	6.22
World	6.66	7.88	9.79

1/ Average of crop years beginning in year shown. Includes industrial use.

Growth Steady in Developed Countries

In the developed countries, growth in per capita vegetable oil consumption has been steady at roughly 3 percent between 1974-1976 and 1985. Japan made large gains in the use of vegetable oils, primarily because of increased trade in oilseeds. For Western Europe, disappearance grew nearly 4 kilograms to 15 kilograms per person. Growth in Western European oilseed output has resulted in increased oil supplies, depressed oil prices, and higher use. However, increased oil supplies have led to a surplus of olive oil, creating a surplus disposal problem for the European Community and the rest of Western Europe.

The potential for consumption growth in the developed countries is less than in the developing or centrally planned countries. In the developed countries, consumption is growing at a slow rate, but there is potential growth from processed food operations, industrial use, and energy substitution. However, the expense of incorporating vegetable oils into fuels makes this use attractive mostly when world petroleum supplies are scarce and prices are high. Therefore, the outlook for depressed crude oil prices suggests that vegetable oils will remain predominantly in the food and soap sectors.

China Skews the Average

In the centrally planned countries, per capita consumption was the lowest in the 1970's and early 1980's but by 1985 exceeded consumption in developing countries. China's low level pulls the average down, but the rapid growth in China put the centrally planned countries into the most recently fastest growing group. Also, for the Soviet Union and Eastern Europe, consumption includes animal fats, which are excluded in this data.

Per capita consumption in the Soviet Union has increased over the decade, despite the decline of the USSR's sunflowerseed crop. However, the current Soviet sunflowerseed crop is 16 percent above a year earlier. Combined with imports of soybeans and some recent inclination toward purchases of palm oil, Soviet per capita consumption of vegetable oils should rise this year.

In Eastern Europe, per capita consumption of vegetable oils was dampened in the early 1980's because of financial crisis, particularly in Poland. However, increased domestic output in recent years has caused a rebound in per capita consumption.

Still one of the lowest in the world, China's consumption has nearly tripled in just 10 years. The production of oilseeds has surged dramatically over the decade. The 1984/85 cottonseed crop exceeded all expectations, and China's production of rapeseed, soybeans, and peanuts also increased. Production gains were so enormous that China resumed its position as a net exporter of oilseeds.

Continued Growth Expected

The 1986 outlook for world vegetable oil consumption is for continued slow growth relative to output. Depressed prices cannot quickly deter palm oil output, because maturing trees planted during the past several years are expected to produce for the next two decades, and the potential for higher yields is great. Prospects for expanded trade and consumption growth are limited, though, because of the mixed economic outlook.

Petroleum-importing countries could benefit from lower fuel prices, but the savings may not be used to purchase more vegetable oil, especially in developed countries with saturated demand. These countries may use funds allocated for petroleum imports to import commodities other than vegetable oil. Energy exporters, on the other hand, will experience slow economic growth, and their consumption of vegetable oils could remain stagnant, at best.

Therefore, overall global vegetable oil demand growth will depend on the sensitivity of demand to lower prices in the developed countries, and the response in the developing countries during a period of slow economic growth. This combination indicates that vegetable oil consumption will expand in the next several years; however, demand growth will continue to be slow relative to growth in production, keeping prices depressed. [*Jan Lipson (202) 786-1691*]

Meat

Over the years, world meat consumption has increased. As consumers strive to improve their diets, meat consumption plays a prominent role. As countries' income increases, they increase their consumption of animal products. The developed countries have the largest per capita consumption of animal products. However, the oil rich countries in North Africa and the Middle East, as well as the East Asian Markets, have shown considerable growth in consumption of animal products in recent years. (For a more detailed discussion of meat's relation to other foods in various regions of the world see the special article "Meat's Importance in World Diets.")

Meat Consumption Up Again in 1985

Per capita consumption of all the meats increased slightly in the major meat-producing countries in 1985. This year, however, per capita consumption could be reduced, mainly because of lower beef supplies. Although feed prices have dropped, meat production and consumption are being restrained by a number of factors. A lack of hard currency and/or credit continues to restrict some countries' ability to import needed feed ingredients. Sluggish economic growth is also restricting demand for meat.

Beef Consumption To Decline

Per capita consumption of beef and veal increased minimally in 1985 in the major producing countries. Some reduction is expected during 1986 because of declines in the United States. U.S. cattle numbers continue to drop as producers respond to low returns and a need to improve cash flow.

Much the same situation is occurring in Canada. Herd liquidation is continuing because of several years of poor economic conditions within the cattle industry and drought in parts of the country during 1985.

The cattle cycle in Australia and New Zealand began to swing up during 1984. Although production has begun to increase, higher exports have kept consumption on the decline. Other meats are also increasing their competition for the consumer dollar.

Per capita beef and veal consumption 1/

Country	1982	1983	1984	1985 2/
Kg., carcass wt.				
United States	48.1	49.0	49.0	49.5
Canada	42.1	41.7	40.2	40.2
Mexico	18.8	16.2	17.0	17.4
Argentina	70.4	66.2	76.4	80.8
Brazil	15.9	15.6	13.2	13.9
EC-10	24.0	24.1	24.4	24.8
USSR	26.0	27.6	28.2	28.4
Japan	5.5	5.8	6.1	6.4
Australia	49.3	42.5	41.1	42.4
52-country average 3/	16.4	16.3	16.3	16.4

1/ Based on available data as of March 1986.

2/ Preliminary. 3/ Countries included in FAS biannual circulars on livestock and poultry.

The dairy herd reduction program in the European Community (EC) resulted in a large increase in beef production in the EC, but consumption only rose slightly. Increased supplies of, and a preference for, meats such as pork have restrained beef consumption in the EC. Because domestic consumption is not absorbing all of the excess beef stocks, pressure will continue for increases in exports.

Cattle numbers declined in the Soviet Union during 1985, and production rose 2 percent. Per capita consumption also increased in 1985 but is forecast to decline this year. If the Soviet Union takes more of the EC's beef during 1986, this could give consumption a little nudge.

Imports account for a large part of Japan's beef consumption, and with the agreement to raise beef imports, domestic consumption will continue to increase. Higher Egyptian imports increased their consumption. However, with lower output and no increase in imports forecast for 1986, consumption could decline slightly. Lower world prices, because of the EC's beef export subsidies, could increase beef consumption in several East and South Asian countries in the near future.

Little Change in Pork This Year

Per capita consumption of pork in the major producing countries rose 4 percent in 1985, mainly because of the increase in China, but little change is expected this year. U.S.

Per capita pork consumption 1/

Country	1982	1983	1984	1985 2/
Kg., carcass wt.				
United States	28.6	30.2	30.0	30.1
Canada	27.9	28.6	27.9	28.0
Mexico	13.7	15.0	12.1	10.8
EC-10	34.3	34.7	35.0	35.4
Germany, Fed. Rep.	49.6	50.6	51.0	51.7
France	34.4	34.8	34.8	34.9
Netherlands	39.1	37.3	39.4	40.5
Germany, Dem. Rep.	57.6	61.1	59.9	62.4
Poland	42.2	39.8	34.9	37.5
USSR	19.9	21.5	22.0	21.6
China	12.4	12.7	13.8	15.7
Taiwan	26.9	29.0	34.6	37.4
Japan	14.0	13.9	14.2	14.3
37-country average 3/	19.2	19.7	19.9	20.7

1/ Based on available data as of March 1986.

2/ Preliminary. 3/ Countries included in FAS biannual circulars on livestock and poultry.

consumption is expected to decline slightly this year. The turnaround in U.S. pork output may have to wait for the producers' financial positions to improve. Cheaper feed prices will help improve returns, but turnaround may still be slower than usual because of the financial conditions in agriculture.

Consumption in Eastern Europe rose slightly in 1985, mainly because of recovery in Poland's pork output. Consumption continues to decline in Hungary. A lack of quality mixed feed concentrates and limited ability to import needed feed due to foreign currency restrictions are hampering any turnaround in Hungary's pork output.

Although feed is becoming cheaper in the EC, returns to hog producers could tighten further as larger pork supplies pressure prices. Consumption has been rising, and relatively low retail prices are expected to boost consumption this year.

In China, good feed supplies and improved profitability are spurring output gains. Producer and retail prices rose sharply because of the Government's relaxation of price controls on most livestock products. Increases in pork output should continue to keep ahead of population gains in 1986.

Country	1982	1983	1984	1985 2/
Kg., carcass wt.				
United States	29.1	29.7	30.6	31.8
Canada	22.6	23.3	23.5	24.8
Mexico	7.8	7.2	8.5	8.8
Brazil	10.0	9.7	8.2	8.8
EC-10	14.1	14.5	14.5	14.5
Italy	17.5	17.5	17.0	16.6
France	16.5	17.3	17.2	17.3
Spain	22.7	21.5	20.9	21.3
Poland	5.9	5.6	6.9	7.0
USSR	9.9	10.3	10.2	10.4
Hong Kong	26.9	25.0	26.7	31.2
Japan	11.1	11.4	11.8	12.2
45-country average 3/	14.0	14.3	14.4	14.8

1/ Based on available data as of March 1986.

2/ Preliminary. 3/ Countries included in FAS biannual circulars on livestock and poultry.

Poultry Continues To Advance

Lower feed prices are improving poultry meat's competitive position in many areas, and world per capita consumption is continuing to increase. Heightened emphasis on reducing the amount of fat in diets and continued expansion into the fast food industry is increasing poultry meat's popularity in the United States and other countries.

In the EC, ample supplies of beef and pork are moderating gains in poultry consumption. The Soviet Union, despite tight feed supplies and reduced imports, increased poultry meat output in 1985. Continued production gains should lead to continued gains in per capita consumption in 1986.

While the Middle East has become a large consumer of poultry and output gains have cut imports, supplies have not kept pace with population growth. Therefore, per capita consumption of poultry has dropped. Some of the drop in poultry consumption may also have been caused by larger beef consumption. Low world beef prices are encouraging increased beef imports. [Linda M. Bailey (202) 786-1691]

Western Hemisphere

U.S. Has a New Farm Act

The Food Security Act of 1985, signed into law on December 23, 1985, will guide U.S. farm policy for the next 5 years. The thrust of the Act is to make U.S. exports more competitive in world markets by lowering loan rates for wheat, coarse grains, cotton, and rice, thus allowing export prices to fall. The success of the program will depend to a large extent on how responsive U.S. exports are to lower prices.

Other features of the farm legislation include:

- o target prices frozen for 2 years to support farm income;
- o specific acreage reduction programs when stocks exceed certain levels;
- o a whole herd dairy buyout program to reduce milk production capacity; and
- o a conservation reserve of up to 45 million acres, under which farmers will receive an annual rental payment in return for placing land in the reserve for 10 years.

In addition, the Secretary of Agriculture has wide authority in implementing various commodity programs, which makes the future direction of U.S. farm prices difficult to predict.

U.S. Meat Output To Fall

Total red meat and poultry production in 1985 was a record, as poultry output increased and red meat production was unchanged. Poultry production is expected to increase moderately again in 1986, because of profitable feeding margins. Pork production is likely to be down slightly, and beef output may

drop 4 percent from 1985. Total meat production will be only slightly lower this year, and per capita disappearance of all meat will stay high. With continued growth in the general economy and reduced meat supplies, livestock prices will probably increase.

1986 U.S. Farm Income Down

Net farm income is forecast to decline again in 1986. Net cash income is also expected to fall from last year's estimated record, but will be about the same as in 1984. Farm income will be supported by higher livestock prices and large Government payments to crop farmers. Farmers will get some relief from low prices through declining production expenses. Expenses are expected to fall for the second year in a row and may be the lowest since 1980.

Canadian Farm Income Picture Changes

A larger-than-expected Canadian grain harvest has altered the picture for grain exports and farm income. Total grain production is now estimated 13 percent higher than last year. The increase will translate into higher grain exports. Wheat exports could exceed last year's by almost 500,000 tons, and coarse grain exports could grow by almost half.

Net farm income is forecast to improve because of the higher production. After falling 14 percent in 1985—the result of drought-reduced crops in 1984—net farm income is now forecast to increase almost 9 percent in 1986. Despite this more optimistic estimate, the Canadian farm economy is in the doldrums. Farm bankruptcies totaled over 500 in both 1984 and 1985, compared with just 125 in 1979.

An additional concern is the impact of the U.S. farm bill on Canadian prices. Lower U.S. loan rates for wheat and corn for the 1986/87 marketing year will have a direct impact on the initial price—a guaranteed minimum price—received by Canadian farmers. Canadian export prices for grains will follow the loan rates downward, placing additional pressure on farm income.

1986 Canadian Meat Supplies To Fall

Beef production rose in 1985, as cow slaughter remained high and slaughter weights increased. Inventories on January 1 were 4

percent below last year. Beef production is forecast to decline in 1986, as cow slaughter and slaughter weights both fall. Pork production is also expected to drop slightly, after increasing 4 percent in 1985. Poultry has shown strong gains in production and consumption the past 2 years, and the trend is expected to continue in 1986. Despite expected increases in poultry output, total meat supplies will drop in 1986.

The U.S. farm bill may also affect the Canadian livestock sector. If the dairy herd buyout puts additional beef supplies on the U.S. market, both U.S. and Canadian prices could be depressed, delaying a turnaround in the Canadian cattle cycle. On the other hand, lower feed prices could encourage Canadian producers to expand output.

Latin American Coffee Production Drops

Severe, prolonged drought has damaged Brazilian coffee production. Last year, Brazil produced a record 33 million bags of coffee. USDA forecasts the crop to be harvested this summer at only 16.5 million bags; private forecasts average only 14 million bags.

Ironically, Brazil's export revenues will likely increase. Brazil will start the next marketing year with large coffee stocks—about 13 million bags. Because prices have increased sharply, the increased value of stocks will more than offset declines in export volume. Therefore, coffee earnings will likely increase more than a billion dollars.

Colombia will especially gain from the higher prices. Colombia had over 12 million bags of coffee in stock at the beginning of the present crop year. About half of Colombia's export earnings will come from coffee stocks. These windfall profits will provide an opportunity for Colombia to pull out of its current economic slump, because foreign exchange earnings and foreign reserves will increase dramatically this year.

For most Central American countries, coffee exports account for almost half of all agricultural exports. But the region as a whole is not in a good position to benefit from Brazil's production shortfall. The coffee now being harvested in Central America is forecast down 8 percent from last year because of poor weather and normal cyclical patterns. It is

doubtful, even with increased production, that these countries could take advantage of higher prices because many countries forward contract most of their production as the need for foreign exchange arises.

Costa Rica, El Salvador, and Guatemala produce about 75 percent of the region's production. Costa Rica's coffee harvest is forecast to fall 20 percent from the 1984/85 record crop. The Guatemalan coffee crop is expected to decline more than 6 percent because of poor weather. Production in El Salvador, Honduras, and Nicaragua is also expected to fall. A large portion of Nicaragua's coffee is grown in areas of political unrest, and there is concern that part of this year's crop may go unharvested.

Oil Prices May Cut Mexico's Food Imports

Mexican food imports will likely decline in 1986, partly because falling petroleum prices will pressure Mexico's financial and balance-of-payments position; 70 percent of export revenues are from petroleum products. Oil revenue losses could amount to \$6 billion in 1986, compared with last year's earnings of over \$14 billion. The Government has announced sharp price declines to maintain export volume. Beginning in March, oil prices are to be adjusted daily instead of being fixed monthly.

Mexico has requested \$6 billion in new loans for 1986, three-quarters of which will have to come from private lenders. Before the sharp fall in oil prices, Mexico was expected to ask for only \$4 billion. Total debt service is expected to approach \$14 billion in 1986, which could have been covered by last year's oil earnings. Major uncertainties are how much commercial lenders will increase their exposure in Mexico and what conditions they will impose on the Government to limit deficit spending, reduce inflation, and prevent capital flight. Mexico will likely call for restructuring of its debt repayment schedule, as it did in 1984 and 1985, although falling interest rates will help ease repayments.

Good crop prospects and sluggish consumer demand will also reduce food imports in 1986. The drop in oil export revenues will lead to decreased Government spending, including expenditures on food

subsidies, which could slow economic activity and dampen food demand. Record wheat and soybean crops and above-average coarse grain output will also reduce import demand.

Debt Problems Persist in Latin America

The debt burden in many Latin American countries continues to restrict possibilities for economic growth. Despite considerable improvement in trade balances and current accounts over the past 3 years, following debt restructuring and declines in interest rates, external adjustment has come at the expense of domestic growth. The increased burden of debt servicing has reduced domestic saving and investment, diminishing prospects for future economic growth.

The Baker Plan, announced in the fall of 1985, may help alleviate some of the consequences of high debt service. The plan, which may apply to 10 Latin American countries, is expected to focus on increased commercial bank credit. The plan emphasizes structural adjustment policies that encourage growth rather than stabilization policies that have induced inflation. Argentina may be the test case for the Baker plan, because that country's new economic plan announced last year has successfully reduced inflation.

Other countries have either already rescheduled debt service payments or plan to do so through International Monetary Fund agreements. Brazil, Latin America's largest debtor, has just reached agreement with commercial banks on a \$31 billion refinancing package that significantly lowers interest rates. This follows Brazil's announcement of a new economic plan designed to lower inflation. Colombia and Ecuador rescheduled late last year. Chile and Venezuela signed agreements for debt restructuring early this year, although the drop in oil prices may force Venezuela to renegotiate its terms. Meanwhile, Peru has announced that it will limit debt repayments to 10 percent of export earnings.

Rescheduling has given debt-burdened countries some breathing room to improve their economies. However, trade in the Latin American region is not expected to expand greatly in 1986. Argentina's exports are expected to grow marginally, and further

cutbacks in imports are likely. Brazil's exports should increase, given the rise in coffee prices, but grain imports may also rise because of the drought. Colombia's export earnings should increase with higher coffee prices. Chile's trade balance should improve, but low copper prices will limit gains in export revenues. Venezuela's export revenues will also fall, because oil provides 90 percent of the total. [Carol Goodloe (202) 786-1663]

Western Europe

The EC Enlarges

After prolonged discussions and drafting of the Treaty of Accession, Spain and Portugal became members of the European Community (EC) on January 1, 1986. Agriculture was the most difficult part of negotiations. The Common Agricultural Policy (CAP) did not apply to Spain and Portugal until March 1, 1986, to allow the two countries to implement the complex legislation in the Treaty of Accession.

Spain and Portugal were particularly concerned about the possibly heavy influx of grain and livestock products from northern Europe. Conversely, a possibly heavy influx of lower cost fruits and vegetables, wine, and olive oil from Spain caused concern among French and Italian producers. The end result has been complex but still not totally resolved. Nevertheless, a 7- to 10-year transition period has been established for these products. Newly established is a concept called the supplementary trade mechanism (STM), which is a monitoring system that closely regulates trade between the EC and Spain and Portugal for "sensitive products" during the transition period.

This third enlargement will likely be the most challenging one faced by the EC. Spain and Portugal will add 3 million farms to the existing 6.8 million in the EC. Agricultural employment of 8 million in the EC-10 will be boosted by 2.9 million from Spain and Portugal. Farms are smaller, farm incomes lower, and unemployment and inflation higher in Spain and Portugal than in the rest of the EC. Added budgetary expenditures because of enlargement will be placed on top of already heavy expenditures. The shift of power toward Mediterranean agriculture

(already including southern France, Italy, and Greece) will likely make policy decisions more complicated and possibly more expensive.

Portugal's and primarily Spain's agricultural output will raise the EC's self-sufficiency in Mediterranean products, but will lower it for temperate products. Self-sufficiency ratios for fresh fruit and vegetables, processed tomatoes, and olive oil will be enhanced; however, those for grains, sugar, most meats, and dairy products will be slightly reduced. For most commodities, prices in Spain tend to be lower than in the EC-10, so adjustment to EC prices will promote output. Prices in Portugal tend to be higher than in Spain and, at times, already higher than in the EC-10.

Agricultural production in the EC has been expanding 2 to 2.5 percent annually, while consumption has grown at about 0.5 percent. This imbalance, in combination with large surpluses in world markets, has resulted in a huge buildup of EC stocks. EC stocks were valued at 10.5 billion ECU's (\$9.5 billion) in 1985, concentrated mainly in grains, dairy products, and beef and veal. The EC is currently trying to dispose of these stocks to reduce storage costs, arguing unconvincingly that sales of the surpluses will not start a trade war because the EC will choose its markets with care. The cost of 3-year programs to dispose of food stock surpluses is estimated at 3 billion ECU's (\$2.7 billion).

EC Price Proposals Show Austerity

On February 6, 1986, the EC Commission presented to the EC Council its price proposals for 1986/87. The overall effect of the price package is a 0.1-percent decline in farm prices in terms of ECU's for the Community as a whole. Italy, France, and Greece will experience some price increases because of their green currency exchange rates.

The Commission is proposing price freezes for grains, milk, beef and veal, mutton, sugar, and wine. Most fruit and vegetable prices will also be frozen. Price cuts of up to 6 percent for tobacco, 5 percent for olive oil, and 4 percent for butter have been proposed.

Despite the EC's increase in grain exports in 1985--with the USSR being a major outlet-- grain stocks have risen to over 21 million tons, compared with 13 million just 2 years earlier. The EC Commission has proposed for 1986/87 that farmers pay a 3-percent "coresponsibility levy" to help pay for grain storage costs and export subsidies. Additional proposals are for farmers to pay a 5-percent price penalty for low-quality grains and for delivery to EC intervention centers at guaranteed prices to be allowed only after the end of April (instead of the current November date).

The EC Commission plans to ask members for a supplemental budget of 750 million ECU's (\$678 million) for 1987, since regular budgetary contributions would be exhausted. Budgetary expenditures for 1986 are estimated at 34 billion ECU's (\$31 billion), exclusive of any supplemental costs. According to the Commission, only if destocking is begun in 1986 and strict budgetary discipline is exercised can the supplemental budget be held to 750 million ECU's. The Commission estimates that it will cost the EC the additional 750 million ECU's (\$678 million) in export subsidies because of the falling value of the U.S. dollar.

U.S.-EC Trade Relations Weaken

Trade relations between the United States and the EC have worsened in recent months. On October 31, 1985, the United States raised ad valorem import duties on pasta with egg to 25 percent and on pasta without egg to 40 percent--a significant increase from previous duties of less than 1 percent for both products. This U.S. action was in response to EC preferential treatment of citrus imports from certain Mediterranean countries.

Subsequent to the U.S. action on pasta, the EC increased its ad valorem duties on U.S. lemons from 8 to 20 percent and on U.S. walnuts from 8 to 30 percent. Pasta exports from the EC to the United States were valued at about \$30 million yearly, compared with annual U.S. exports to the EC of about \$1 million in lemons and \$32 million in walnuts.

Effective February 15, 1986, the EC restricted imports of U.S. fertilizer, coated paper, and animal fat in retaliation for U.S. unilateral restrictions on semifinished steel

from the EC. The EC's import quotas will be in effect until November 15, 1989, and will result in estimated annual import reductions of 23 percent for fertilizers, 20 percent for fats, and 8 percent for coated paper. More recently, the EC imposed a 90,000-ton quota on imports of U.S. inedible tallow. These "minor" trade skirmishes may be a harbinger of bigger retaliatory actions, as the EC attempts to move large stocks into export, and the United States, under the Food Security Act of 1985, attempts to promote exports and become more price competitive in export markets.

U.S. agricultural exports to Western Europe are forecast at \$6.9 billion in fiscal 1986, a continued decline from the \$7.2 billion a year earlier. Declines are expected in both the EC and non-EC areas of Western Europe, despite a 20-percent decline in the value of the U.S. dollar against most European currencies thus far this fiscal year. The value of U.S. exports of grains and preparations to the EC are expected to hold at about fiscal 1985's \$1.2 billion, with increases in quality wheats offsetting a decrease in coarse grains. As for other exports to the EC, a small increase is expected in U.S. shipments of oilseeds and products, but a sharp decline is likely for cotton because of other exporters' large supplies at relatively low prices. [Reed Friend (202) 786-1720]

Australia

The export-dependent Australian agriculture has been hard hit by depressed world commodity prices. The real net value of output is expected to drop 24 percent in 1985/86, following last year's 13-percent decline. Farm income on family farms will average less than \$A7,000 this year. Weakness in the Australian dollar has helped to support returns, but input costs, particularly interest rates, have risen sharply. Except for the beef and wool sectors, the outlook is pessimistic over the next few years.

Wheat Output Down, Exports Rising

The wheat crop just harvested was down 10 percent because of early-season weather problems. However, huge carryin stocks will allow exports to continue to expand. The Australian Wheat Board began the 1985/86

Farm type	1983/84	1984/85 2/	1985/86 3/
1000 \$Australian 4/			
Wheat and other crops	41.4	17.2	-7.5
Mixed livestock-crops	26.5	18.7	4.5
Sheep	16.4	24.7	12.2
Beef	13.1	20.9	16.2
Sheep and beef	24.2	31.7	14.1
Dairy	21.3	15.2	8.8
Horticulture	3.9	9.5	6.2
All surveyed farms	23.2	19.5	6.7

1/ Includes about 90 percent farms in the Australian BAE survey. 2/ Preliminary. 3/ Forecast. 4/ In 1983/84, \$A = 91 cents U.S.; 1984/85 = 77 cents; 1985/86 = 70 cents.

SOURCE: Australian Bureau of Agricultural Economics.

season with strong overseas sales, including 2 million tons to Egypt for calendar 1986 delivery, 2.55 million to the USSR for first-half 1986, and 3.3 million to China for September 1985-July 1986.

Livestock Herd Expansion Continues

Cattle producers expanded the herd 2 percent in 1985, and 4-percent growth is likely in 1986. The average saleyard price for cattle rose 14 percent between 1983 and 1985, and an 8-percent rise is expected this year. The prospect of low crop prices through the 1980's is causing farmers to emphasize livestock enterprises.

Beef and veal production may continue at about 1.3 million tons in 1986. Exports are projected to increase slightly; domestic beef consumption may decline because of large supplies of other meats.

The sheep herd grew 10 million head in 1985, to 150 million. Depressed lamb and mutton prices have limited slaughter, and producers are emphasizing wool rather than prime lamb production. This trend will strengthen in 1986. Reduced slaughterings should allow some improvement for lamb prices, but mutton prices will remain extremely low. Export markets for both mutton and live sheep are likely to remain weak because of strong competition in the Middle East and no Soviet purchases. [Sally B. Byrne (202) 786-1611]

U.S. Agricultural Exports Lower

U.S. farm exports to Japan could drop below \$5 billion in fiscal 1986, the lowest since fiscal 1979. Lower commodity prices and declining U.S. market shares for coarse grains and cotton will contribute to the drop in value. On the other hand, U.S. soybean exports to Japan are expected to increase because of drought-reduced supplies in Brazil. Japan imported a record 208,000 tons of soybeans from Brazil last year.

U.S. sales of pork and poultry are expected to improve later in the year, aided by a weaker U.S. dollar, which has declined about 30 percent against the yen since the September 22 Group of Five meeting. U.S. beef exports to Japan are also expected to expand in line with the 1984 U.S.-Japan understanding on beef.

Despite low U.S. grain prices and a weaker dollar, the United States is facing intense competition from China, South Africa, and Argentina in the Japanese coarse grain market. As a result, the U.S. share of Japan's grain imports is expected to erode further, from 68 percent last year.

China is forecast to continue to ship large quantities of corn to Japan, notwithstanding a reduced grain harvest. Japanese importers have contracted to purchase 2.4 to 2.5 million tons of Chinese corn for delivery between May 1986 and April 1987. This follows a similar purchase agreement involving about 2 million tons for the same period last year. Japan is also likely to purchase a large volume of South African corn during April 1986-March 1987 because of favorable prices and high starch content. Japan will buy about 1 million tons from Argentina.

The United States is also facing keen competition in the Japanese cotton market. U.S. cotton exports are expected to fall sharply, and the U.S. share could drop to about 20 percent, from nearly 50 percent last year. Japan has significantly increased its purchases of Chinese cotton and has stepped up imports from other suppliers, such as Australia and

Pakistan. Uncompetitive prices for U.S. cotton is the principal reason for declining U.S. sales.

Livestock Profits Improve

Because of the strengthening yen, livestock feed prices have declined. Zennoh, Japan's largest feed manufacturer, lowered prices 4.1 percent for January-June 1986 deliveries, to 62,500 yen per ton (\$347 a ton at 180 yen per U.S. dollar). Rising livestock product prices have combined with declining feed prices to bolster profit margins for Japanese livestock producers since May 1985. The yen's appreciation is expected to encourage larger-than-anticipated growth in Japan's formula feed production this year. [Lois A. Caplan (202) 786-1611]

Middle-Income East Asia

U.S. farm sales to middle-income East Asia are forecast to drop more than 12 percent in fiscal 1986, compared with \$3.1 billion for the previous year. Brisk competition in the bulk commodity markets, slower economic growth, and lower prices are responsible for the decline. Economic growth in the region is expected to continue to slow in 1986.

U.S. Coarse Grain Sales To Increase

The volume of U.S. coarse grain sales to the region is expected to increase marginally in fiscal 1986, while lower prices will reduce the value.

U.S. coarse grain exports to Taiwan are forecast to decline because of increased use of rice for feed and Taiwan's promise to buy 200,000 tons of corn from South Africa during the year. Competition from off-grade Canadian and Australian wheat used for compound feed is expected to influence the South Korean coarse grain market this year. However, competition from Chinese corn is not expected to be as brisk as last year, so the United States should recover some of its lost market share.

U.S. Cotton Exports To Fall Sharply

The volume of cotton sales to the region in fiscal 1986 is forecast to fall sharply from

the previous year. Higher U.S. cotton prices have greatly reduced the U.S. share of the region's cotton imports.

U.S. cotton exports to South Korea are expected to drop because of stiff competition from China. In spite of Taiwan's increased cotton imports during the first quarter of fiscal 1986, U.S. loan rates prevented prices from declining, thus reducing the U.S. market share. Meanwhile, Pakistan and Brazil made significant gains due to their lower prices.

China and Pakistan have captured most of the Hong Kong cotton market. The U.S. share dropped from 15 percent for July-September 1984 to only 1 percent for the same period in 1985. It is anticipated that Chinese cotton will continue to dominate the Hong Kong market in the near term.

Rice Production Decreased Marginally

In South Korea, 1985 rice production totaled an estimated 5.6 million tons. This estimate places 1985 output about 3 percent above the Government's production target, but 1 percent below last year's crop.

Taiwan's rice production in 1985 fell 2 percent to 1.98 million tons. With stocks persistently high, the Government allocated 400,000 tons of surplus rice for feed use during May 1985-June 1986 and an additional 235,000 tons for June-December 1986. Subsidized rice exports, which totaled 39,000 tons in 1985, are likely to reach at least 50,000 in 1986, with sales mainly to Nigeria and Mauritius. The 6-year Rice Diversion Program, scheduled to continue through 1989, has targeted 146,500 hectares for diversion from rice production. [Maria-Elena Pomar (202) 786-1611]

USSR

In January 1986, data released by the USSR's Central Statistical Administration showed that the Soviet agricultural sector achieved mixed results for overall output in 1985. Despite the estimated increase in domestic grain production, the value of total agricultural output remained unchanged from 1984.

Overall sown area declined to 210 million hectares, its lowest since 1972, with most of the decline in the Soviet grain sector.

Nevertheless, USDA estimated grain output to have increased 20 million tons and to have reached 190 million. An estimate is used because the Central Statistical Administration continues to withhold the publication of a total Soviet grain output number.

Roughly one-half of the increase in grain output came from wheat, estimated at 83 million tons, and the other half came from coarse grains, estimated at 94 million tons. As a consequence of increased domestic output, Soviet grain imports during July 1985–June 1986 are expected to decline about 20 million tons.

Many of the nongrain crops also recorded increases. Raw cotton output rose 2 percent to 8.75 million tons. Oilseed output likely exceeded 11 million tons, an almost 0.9-million-ton increase from 1984. But oilseed production was still far from the records achieved in the 1970's. Sunflowerseed output accounted for most of the rise, increasing more than 700,000 tons and reaching 5.23 million. The other primary Soviet domestic oilseed, cottonseed, is estimated to have risen 140,000 tons.

On the down side, sugarbeet output declined 3 million tons to 82 million; potatoes plummeted 12.5 million tons to 73 million; and vegetables fell 3.5 million tons to 28 million. However, production of nongrain feeds reached a record, as silage, hay, and haylage output increased.

Feed availability rose to its highest level in recent years, as the USSR continued to reduce the share of grain in its livestock feed mix. Nonetheless, feeding efficiency has not improved, and a shortage of protein in feed ration persists. Although Soviet plans called for a 5.7-percent annual growth in mixed feed production during the 1980's, output increased only 3.9 percent during 1980–1984. Increased imports of soybeans from the United States since January may signal a renewed willingness to alleviate protein shortages through foreign suppliers.

Animal inventories as of January 1, 1986, were lower than in 1985, marking the first decline in 10 years. Small increases were achieved in meat, milk, and egg output. Per capita consumption of meat and milk probably

remained unchanged in 1985, while per capita consumption of eggs reportedly increased by 1.5 percent.

It is too early to assess the 1986/87 Soviet grain crop. While soil moisture in some areas appears to be better than last year, hardening conditions last fall were not as good. Nevertheless, it appears that winter grains suffered no more than average winterkill. The Soviets sowed less than 32.8 million hectares to winter grains, compared with 34 to 35 million hectares in the past. The Soviets may try to offset this reduction in winter grains by increasing spring grain area.

As in 1984/85, the bulk of Soviet purchases of U.S. grains will be corn in 1985/86. USSR imports of U.S. wheat plummeted from 6 million tons during October 1983–September 1984 to less than 3 million in 1984/85, marking the first year that the Soviet Union has violated the minimum purchase requirements of either the current or previous U.S.–USSR Grain Agreement.

The U.S.–USSR Grain Agreement is one of two treaties between the two countries in the area of agriculture. The other is the U.S.–USSR Agricultural Cooperation Agreement, which calls for the exchange of agricultural specialists and information, such as the exchange of relevant production information on major crops, including grain. [Tom Bickerton (202) 786–1710]

Eastern Europe

Grain production in Eastern Europe last year was down from the 1984 high but was still the fourth successive year above 100 million tons. Overall regional oilseed production hit an alltime high in 1985. Livestock numbers fell slightly, while meat production remained fairly steady. U.S. exports to the region declined again last year, to the lowest point in the last 20 years.

Crop Results Mixed in 1985

For the fourth consecutive year, 1985 grain production in Eastern Europe topped 100 million tons. While above average at roughly 103 million tons, the harvest was about 10 percent below 1984's record output and was down in all countries except the German

Democratic Republic (GDR). The unusually severe winter and the summer drought in the southern countries hampered output. The decrease in production was mainly in the wheat and corn crops, both down more than 10 percent. The condition of winter grain crops, sown in the autumn of 1985, is generally good, with minimum winterkill and adequate soil moisture in most countries.

Total oilseed production in 1985 is estimated to have exceeded the 1984 record of 4.65 million tons. The increase is primarily due to the record rapeseed crop in Poland, more than 15 percent. Sunflowerseed production was up slightly; however, soybean output declined because of the drought in Romania and Yugoslavia.

Livestock Sector Suffers Setbacks

January 1986 livestock numbers showed an overall decrease due to the harsh 1984/85 winter, energy shortages, increased production costs, lower feed supplies in the southern countries, and official policies to minimize feed imports. Czechoslovakia, Hungary, and Yugoslavia experienced the most significant percentage decreases in total livestock numbers. Overall livestock production in 1985 remained about the same, but exports of livestock products increased to maintain export revenues in the face of falling world prices for meat. In 1986, livestock numbers should show a slight upturn as domestic feed supplies recover and livestock regulations are adjusted.

Austerity Measures Continue

In keeping with the policies of reducing foreign debts and balancing trade, most countries of Eastern Europe achieved another hard-currency surplus last year by strictly enforcing domestic austerity programs. A deterioration of food supplies has accompanied these belt-tightening measures and has led to recurrent food shortages, rationing of foodstuffs, and price increases. Meat, sugar, and butter were rationed in Romania, bread in Bulgaria, and meat in Poland. Moreover, to reduce the State's burden of supporting food prices, consumer prices were increased last year in Bulgaria, Hungary, Poland, and Yugoslavia.

However, in the GDR, basic food prices have remained unchanged since the late 1950's. Continuing considerable subsidization of basic food prices in 1985, the GDR earmarked 46 billion marks (\$12 billion)—the largest sum ever, equal to 20 percent of the State budget—this year for the subsidization of foodstuffs and other public goods and services.

U.S. Exports Lowest in Two Decades

U.S. agricultural exports to Eastern Europe dropped nearly 40 percent last year, from \$757 million in 1984 to \$479 in 1985—the lowest in the last two decades. U.S. agricultural exports decreased to all countries, except Bulgaria, as overall farm imports by the region fell. Poland, the GDR, and Romania purchased roughly 50 percent less from the United States than they did in 1984. The U.S. share of the market as a whole, however, did not appear to change significantly.

U.S. agricultural exports to the region will remain about the same in 1986, as the countries continue to rely on their own production to supply domestic needs. Furthermore, in U.S. fiscal 1986, Yugoslavia and Hungary are not likely to use the full \$122 million in CCC credits at their disposal. In fiscal 1985, Yugoslavia only used 24 percent of the total credit—\$170 million—it was allocated. [*Christian J. Foster (202) 786-1710*]

China

China tallied up another good crop year in 1985, despite lower grain and cotton production. The output of livestock, oilseeds, fruit, vegetables, and other crops rose. The diversity and quality of food supplies improved, and consumption rose again during 1985. Prices of many foodstuffs, such as meat, rose sharply. Large stocks maintained grain consumption, reduced imports, and continued to support large coarse grain and soybean exports.

Grain Production Falls

Grain output declined about 7 percent in 1985. Grain area, which has been falling since 1978, dropped an additional 4 percent. Wheat

output fell, although only marginally, to 86 million tons. Production of rice and coarse grains dropped sharply, by 7.9 and 11.5 million tons, respectively. Uncertain about price and marketability, farmers shifted from rice and coarse grains to other crops. This brought about a 3.3-million-hectare expansion in cash crop acreage, changing the ratio between cash crop and grain crop areas from 17:83 in 1984 to 21:79 in 1985. China's leadership is now concerned about the fall in production and, particularly, about the decline in grain area. In response to these concerns, grain production will receive a higher priority in 1986. Plans for 1986 call for grain production to equal the record 1984 harvest. Area is to increase 2 million hectares.

Oilseed Production Up

Because many areas shifted from grain and cotton to oilseeds, peanut, rapeseed, sunflowerseed, and sesame output showed substantial gains. However, soybean output dropped to 9.5 million tons. Total oilseed output rose to 32.4 million tons, or 4.2 percent, while the sown area increased about 2 million hectares, or 9.5 percent, from 1984. The Government continued to guarantee purchases of these crops at premium prices. Because of continued area expansion, oilseed production should rise still more in 1986.

Imports Down, Exports Continue

With a bumper wheat crop, wheat imports in 1985/86 are estimated to fall to 6.5 million tons. The U.S. share of wheat imports is expected to be well below the 2.4 million tons shipped in 1984/85.

Substantial Chinese exports of oilseeds, coarse grains, and cotton will continue in 1986. This is due to the growing diversification of crop production and an increasing array of agreements with trading partners, most notably the Soviet Union and Japan.

Livestock Sector Gains

The livestock sector made substantial gains in 1985. Total meat production, including pork, beef, and mutton, rose to 16.5 million tons, an increase of about 7 percent from 1984. Pork production, which accounts

for over 90 percent of total meat output, rose to 16.5 million tons. Egg, milk, and poultry production also increased by a big margin. The Government relaxed price controls on pork during 1985, so higher prices for quality meat were an important reason for the growth in output.

Consumers now have not only increased meat supplies, but also a wider variety of animal protein products available. Milk and egg output has risen steadily in recent years. With increased output of manufactured feed, scheduled to rise from 12 million tons in 1984 to 50 million in 1990, livestock production will continue its rapid growth in coming years. [Victoria M. Morton (202) 786-1616]

South Asia

Indian Food Grain Outlook Improves

India's 1985/86 rice crop is now estimated at a record 61 million tons, and 1986 wheat output is likely to be a record. However, poor monsoon rains in eastern and central India have reduced coarse grain output about 5 percent. Procurement of rice is likely to match last year's record, and total Government food grain stocks are likely to be about 30 million tons, 9 million above target, by July 1986. Wheat stocks are forecast to remain well above target, despite increased distribution through open market sales and targeted programs.

In February, the Government announced price increases for a number of items, including fertilizer and food grains. The price hikes are intended to reduce outlays on subsidies that have risen sharply because of increases in fertilizer use and food grain stocks. Also, higher open market prices for wheat may help reduce stocks by lowering procurement in price support operations.

Edible Oil Import Forecast Reduced

India's 1985/86 edible oil imports are now estimated at 1.1 million tons, 17 percent below 1984/85 and 35 percent below 1983/84. An improved production outlook for rapeseed, higher-than-expected stocks of imported oils, and policy adjustments that will reduce imported oil use in the vanaspati

(hydrogenated vegetable oil) industry have led to the lower forecast. Soybean oil will likely account for most of the decline because of lower relative palm oil prices and reduced use of soybean oil in vanaspati.

Wheat and Cotton Improve in Pakistan

Poor early-season supplies of irrigation water reduced 1985/86 rice output to about 3.2 million tons, but good winter water supplies and higher prices will likely push wheat production to a record in 1986. Wheat import estimates for 1985/86 have been reduced, and no imports (except for Afghan refugee relief) will likely be needed in 1986/87. Excellent growing conditions and further gains in input use have boosted the 1985/86 cotton forecast to 5.5 million bales, 20 percent above last year's record.

Record production of cottonseed oil is forecast to cause only limited growth in edible oil imports, from 664,000 tons in 1984/85 to about 700,000 in 1985/86. Soybean oil imports are expected to rise because of the availability of concessional and credit financing for the U.S. product.

Record Crops in Bangladesh and Sri Lanka

Harvests of wheat and rice in Bangladesh continue to be forecast at records in 1985/86 because of excellent weather. Therefore, food grain import requirements are expected to fall to 1.5 million tons, with wheat purchases dropping 25 percent and rice purchases 90 percent.

Sri Lanka's 1985/86 rice crop is now estimated at a record 1.79 million tons, 9 percent above last year, as good weather and input supplies offset the disruptive effects of civil unrest. As a result, Sri Lankan wheat imports are expected to continue to show little growth in 1985/86. [Maurice R. Landes (202) 786-1614]

Southeast Asia

1986 Indonesian Rice Crop To Be Record

Indonesia harvested a bountiful 1985 rice crop of 26.3 million tons, 8 percent larger than 1984's previous record. Favorable weather and increased rice area were major factors determining the higher production. The

nation's 1985 rice self-sufficiency was highlighted by estimated exports of 400,000 tons, against imports of only 34,000. In 1984, Indonesia imported 387,000 tons of rice, still sharply below its world-leading average of 1.9 million during 1978-1981.

Another record harvest is anticipated in 1986. Based on a generally favorable monsoon season, the wet-season harvest will be large. The Government's decision not to increase the 1986 rice support price probably reflects an effort to reduce still high Government stocks, which totaled 2.8 million tons on January 1.

Malaysian Palm Oil Output Surges

Malaysian palm oil production expanded 11 percent to 4.1 million tons in 1985, while crude palm oil prices trended sharply lower, following near-record highs early in the year. In 1986, an estimated 65,000 hectares of new producing area will contribute to a palm oil output of 4.6 million tons. Crude and processed palm oil stocks of 845,000 tons on January 1 were record high and 86 percent above a year earlier. The magnitude of Malaysia's palm oil exports in 1986 will be determined largely by demand from India, Pakistan, and the Soviet Union.

Thailand Reacts to U.S. Food Security Act

Thailand has responded to the threat of increased competition from the United States by removing more export controls on rice. Exporters are no longer required to maintain minimum stocks, and the export taxes on all but the highest grades of rice have been removed. Thailand has entered into barter arrangements with large importers, such as Brazil. Domestic policies to support farm prices have been abandoned. Thai export prices have fallen slightly since the new U.S. rice export program in the Food Security Act became law in late December.

Philippines Receive Export Bonus Wheat

The Philippines became the first Asian recipient of the USDA Export Enhancement Program (EEP), which offers the Philippines 100,000 tons of wheat flour and 150,000 tons of wheat. While the new Aquino administration has transferred the wheat licensing agency to the Ministry of Agriculture

and Food, most of the EEP is still expected to be fully utilized. Additional wheat flour imports are unlikely, with domestic wheat prices expected to fall and more closely reflect world prices than in the past. Wheat imports and consumption are expected to gradually resume their pre-1983 upward trend, which, in addition to some changes in the wheat varieties demanded, will likely benefit U.S. wheat exporters. [Jitendar S. Mann (202) 786-1614]

Sub-Saharan Africa

Bumper Harvests in 1985/86

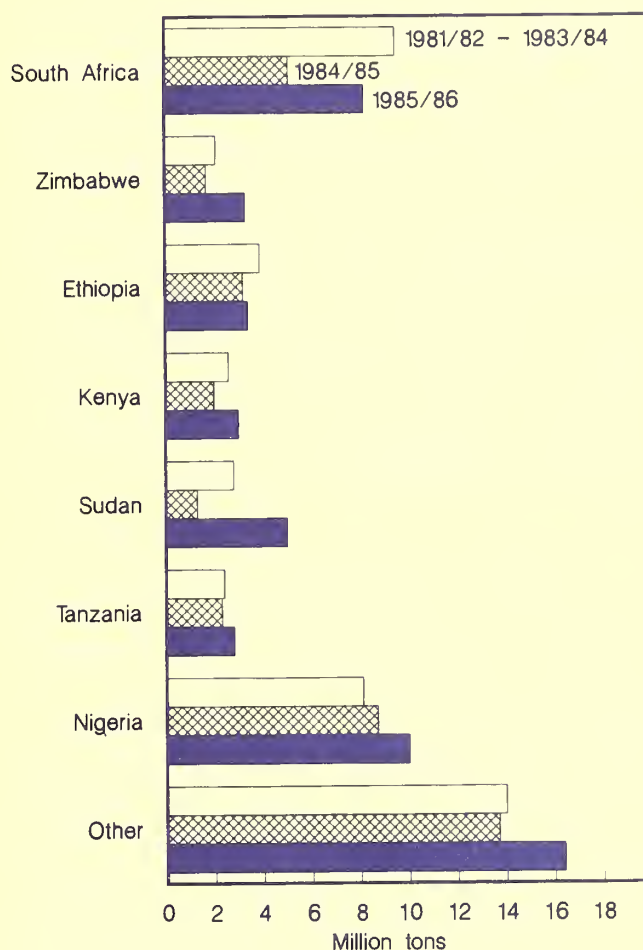
Crop production increased substantially in Africa south of the Sahara during 1985, reversing the dismal performances of 1983 and 1984. Cereal production jumped a third, and the output of coffee and cocoa well exceeded 1981-1983 averages. As a result, in 16 of 20 countries with national food emergencies last year, domestic cereal supplies have returned to normal. However, food shortages persist in some areas. The traditional agricultural exporters face mixed prospects, with strong production but soft world markets. Coffee markets are the exception, as producers will benefit from high world prices.

Cereal Output Expands

Sub-Saharan Africa's combined output of wheat, rice, and coarse grains totaled 60 million tons in 1985, a third above the 1984 harvest and 13 percent above the 1981-1983 average. As a result, total cereal imports are expected to fall from 11.7 million tons in 1985 to 10.3 million in 1986. Exportable surpluses have increased. Coarse grains, which accounted for 87 percent of total cereal output, increased 38 percent from 1984 to 1985. Gains were largest in East and Southern Africa.

At 3.4 million tons in 1985, wheat production was 8 percent below the 1981-1983 average. South Africa, the largest wheat producer, suffered a 9-percent decline in output between 1984 and 1985 because of bad weather. However, this was nearly offset by increases in other countries. Kenya's wheat harvest tripled, while Zimbabwe's more than doubled.

Sub-Saharan Coarse Grain Output Rises



The region's rice output increased 8 percent to 4.6 million tons in 1985. In West Africa, rice output rose from 2.3 million in 1984 to 2.6 million tons in 1985, with the Ivory Coast and Nigeria posting significant gains. In Madagascar, the largest producer, output increased 2 percent to 1.4 million tons.

Sub-Saharan Africa still depends heavily on imports for its wheat and rice supplies. In 1985, 6.1 million tons of wheat and 2.4 million tons of rice were imported. However, in 1986, wheat and rice imports are likely to decline because of improved coarse grain supplies.

Food Shortages To Continue

In several countries, the recovery from last year's famine is not complete. In Ethiopia, Angola, and Mozambique, national food emergencies continue. In each, civil turmoil has reduced output and frustrated efforts to provide food aid to people in need.

Although Ethiopia's cereal production rose 10 percent to 5.5 million tons in 1985, it is still below the 1981-1983 average. Therefore, Ethiopia will have to import over 1 million tons of cereals in 1986, both through food aid and commercial purchases. Cape Verde is also experiencing exceptional food shortages.

In Sudan, Chad, and other Sahelian countries, national cereal production improved in 1985, but localized food shortages continue. Sudan harvested 5 million tons of sorghum and millet last year, topping the 1981 record by 30 percent. After 1981, drought took an increasing toll on Sudanese agriculture, dropping sorghum and millet output to only 1.3 million tons in 1984.

The rapid recovery in Sudan is attributed to well distributed rainfall, exceptional efforts to supply seed, and an enormous expansion in area planted, primarily on the large mechanized farming schemes in the East. These schemes are controlled by an economic minority who own tractors and have the ability to hire labor and obtain agricultural inputs, such as fuel. Therefore, despite the gains in the East, an estimated 4 million traditional peasant farmers and nomads in western and northern Sudan will require food assistance during 1986. They are too destitute to purchase surplus grains from producers in the East.

Sudan's weak and financially troubled transitional Government is not able to provide food relief without foreign assistance. Yet, international donors are reluctant to bring food aid into the country to feed the hungry because it would only add to the large food surpluses. Efforts to redistribute food internally are hindered by speculators and by rate gouging on the part of private truckers. Consequently, people could go hungry, even though there is more than enough food to feed everyone.

Corn Suppliers in Need of Markets

Corn production in Sub-Saharan Africa increased 34 percent because of improved weather, with South Africa, Zimbabwe, and Kenya--traditional exporters--posting the largest gains. South Africa's corn output grew from 4.4 million tons in 1984 to 7.4 million in

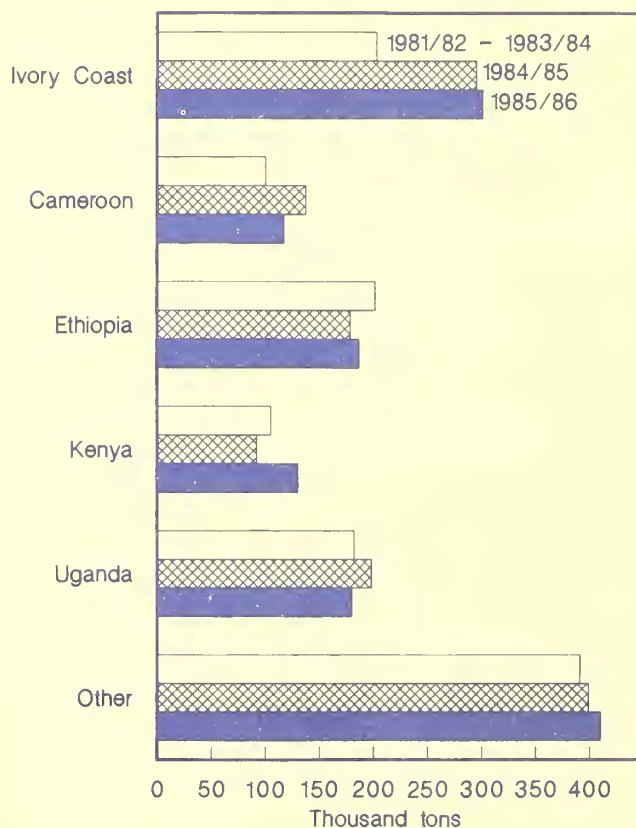
1985, although it is still below pre-1983 levels. The 1986 crop is estimated at 8.5 million tons.

In Kenya, as well as Tanzania, better weather plus producer price increases contributed to 1985 output growth of 56 and 25 percent, respectively. Kenya, South Africa, Zimbabwe, and Malawi hold sizable exportable surpluses of corn. But current world supplies exceed expected consumption by 25 percent, and prices have fallen 10 percent since January 1985. Markets in neighboring countries are small at best. As a result, these countries face poor export prospects for their corn surpluses.

Prospects Favorable for Coffee Producers

Sub-Saharan Africa's highest valued agricultural exports are coffee and cocoa. Coffee production in 1985/86 is an estimated 1.3 million tons (22 million 60-kilogram bags), slightly above 1984/85 output and 12 percent

Africa's Coffee Output Up Slightly



more than the 1981/82-1983/84 average. In Ethiopia and Kenya, output increased as their coffee sectors recovered from the 1984/85 drought. Cameroon's 1985/86 crop is below 1984/85's record 137,000 tons (2.3 million bags) because this is an off-year in its production cycle. The Ivory Coast--Africa's largest coffee producer--posted slight gains to 300,000 tons (5 million bags).

Coffee export prospects are favorable, because prices in January 1986 were 70 percent higher than in January 1985 and the International Coffee Organization's export quotas have been suspended. The Ivory Coast and Kenya increased sales, and high prices will boost export earnings. Other producers, including Ethiopia and Cameroon, will benefit from the higher prices, but tight supplies will not permit significant increases in export volumes. The continuing civil war in Uganda has disrupted exports from that country, as well as from Burundi, Rwanda, and Zaire, which rely on transportation through Uganda to the Kenyan Coast.

Little Change in the Cocoa Market

In 1985, Africa's cocoa production dropped slightly to 950,000 tons. Four West African countries account for nearly half of the world's cocoa output. In the Ivory Coast, output was just below 1984's record 550,000 tons. Good weather and increases in producer prices were responsible for the Ivory Coast's strong improvement in 1984 and 1985.

In the Cameroon, good weather and improved supplies of inputs increased output. In Ghana and Nigeria, cocoa production has been going down in recent years because of poor management practices. However, Ghana's output did increase 10 percent in 1985.

Until recently, world cocoa markets were stable. But in early March, the Ivory Coast signaled its opposition to renewal of the International Cocoa Agreement. This threatens price stability since the International Cocoa Organization buffer stocks could be released onto the commercial market. The Ivory coast recently indicated that it would participate in July negotiations for a new agreement. Thus, the cocoa export earnings picture for African producers is uncertain in 1986.

Cautious Optimism for 1986 Crop Output

The performance of Africa's agriculture during 1985 underscores the importance of weather where semi-arid conditions and traditional farming practices are widespread. Assuming satisfactory rainfall, 1986 should provide further improvement in crop output, allowing continued recovery from recent famines. An adjustment to market conditions, with subsequent shifts from cereals to other crops, such as oilseeds, is expected in 1986. Unreliable rainfall and uncertain market conditions are responsible for sizable year-to-year changes in national food supplies and export earnings. Thus, 1985 should be viewed as a peak on a very jagged horizon. [Stephen M. Haykin (202) 786-1680]

WORLD TRADE AND FOOD POLICY

Canada-USSR Grain Agreement

Canada and the Soviet Union renewed their 5-year grain agreement in January. The new agreement provides that Canada will supply 25 million tons of wheat and barley beginning August 1, 1986, through July 1991. The Soviet Union is not required to make any minimum annual purchase under the new agreement, although the previous one specified 5 million tons. Traditionally, the agreement has been 80 percent in wheat and 20 percent in barley. Price is determined at purchase, with credit available.

Canada-Brazil Wheat Agreement

Canada and Brazil renewed their 3-year grain agreement in January 1986. The new agreement provides that Canada will supply up to 4.5 million tons of wheat during 1986-1988. Brazil will make minimum purchases of 750,000 to 1.5 million tons annually, less than the previous agreement's annual minimum of 1 to 1.5 million tons. Canadian credit of Can\$1 billion for 3-year terms is available. Brazil has traditionally purchased Canadian No. 3 western red spring wheat.

GATT Committee Deciding MTN Agenda

The agenda for multilateral trade negotiations (MTN) is to be established by a Preparatory Committee of the General

Agreement on Tariffs and Trade (GATT). The committee, which is to meet from mid-January to mid-July 1986, was created at the 41st Session of the GATT, held November 25-28, 1985.

The committee noted that a priority subject for discussion by the developing countries will be "standstill and rollback" issues, concerning the protectionist trade measures raised by countries to improve their negotiating stance during an MTN. In addition to traditional standstill and rollback commitments to continue trade barrier liberalization during the upcoming MTN, the developed countries pledged at the 1983 OECD Ministerial meeting to use the economic recovery following the recent world recession to resist and reverse protectionist trends. Developing-country interests in trade barrier standstill and rollback issues in the preparatory committee are consequently heightened in light of the OECD pledge.

Another developing-country priority will be safeguards used by importing countries to restrict trade when domestic firms are overwhelmed by import competition. One suggestion made to achieve a standstill in agricultural trade was to maintain existing import access during the MTN.

Priority subjects for the United States include bringing world agricultural and services trade under more effective GATT discipline and improving overall GATT procedures—particularly the dispute settlement mechanism that affects all trade.

In committee discussions, the GATT Director-General pointed out three problem areas needing procedural improvement. One, vague wording of some important GATT regulations has hindered dispute resolution. Two, delays by members in forming dispute settlement panels and their terms of reference slow the settlement process. Three, refusal of members to accept panel reports ruling against them also prevents effective trade regulation. However, he stressed that the vast majority of panel findings are, in fact, implemented.

Export Initiatives in Food Security Act

Several export initiatives are included in the trade title of the Food Security Act of 1985 and the Food Security Improvements Act of 1986.

Export credit and credit guarantee programs offered by the Commodity Credit Corporation (CCC) are supplemented by a new intermediate credit guarantee program. The existing short-term credit guarantee program (on credit of up to 3 years) is authorized at \$5 billion annually through fiscal 1990, the same level as in fiscal 1985. Under the Gramm-Rudman-Hollings provisions, however, this was reduced to near \$4.8 billion for fiscal 1986. The intermediate credit programs are amended to allow intermediate credit guarantees of 3 to 10 years. For the purposes of guaranteeing export sales, the CCC must make available at least \$500 million through fiscal 1988 and not more than \$1 billion in fiscal years 1989 and 1990. This was reduced to \$480 million in fiscal 1986 because of Gramm-Rudman Hollings legislation.

Under a targeted assistance program, at least \$110 million, or an equal value of CCC commodities, must be used annually through fiscal 1988 for the specific purpose of countering or offsetting foreign subsidies, import quotas, or other unfair trade practices. At least \$325 million must be used in fiscal years 1989-90. Priority assistance will be given those agricultural commodities that have been found to have suffered from unfair trade practices under Section 301 of the Trade Act of 1974, or which have suffered from retaliatory actions related to such a finding.

Under another program, at least \$1 billion and at most \$1.5 billion in CCC commodities shall be provided through fiscal 1988 to exporters and others at no cost to encourage the development, maintenance, and expansion of U.S. agricultural export markets. The program is to help make U.S. commodities more competitive by offsetting subsidies or other unfair trade practices, the adverse effects of price support levels temporarily above competitors' export prices, or fluctuations in exchange rates.

Through fiscal 1988, not less than 150,000 tons of CCC dairy products are to be sold annually for export at prices set by the Secretary. Sales are to involve at least 100,000 tons of butter and 20,000 tons of cheese annually.

Section 416 of the Agricultural Act of 1949 is amended to mandate a pilot barter program for strategic materials for at least two countries in fiscal 1986 and 1987. [*Ted Wilson and Mark Smith (202) 786-1688*]

COUNTRY BRIEFS

Argentine Harvests Underway

Assuming normal weather during the harvest season, forecasts for Argentina's 1986 harvest indicate 13 million tons of corn--up 2 million tons from a year earlier--and 4.5 million tons of sorghum--down 1.4 million tons. The soybean crop is expected to be 7.6 million tons, an increase of 1 million, while sunflowerseed output will likely rise about 100,000 tons to 3.5 million.

Corn, sorghum, and sunflowerseed harvesting got underway in March. The soybean harvest begins in April. Late-planted sunflowerseeds are also harvested in April, since these are planted further south, where the growing season is shorter. Late-planted soybeans, which are double-cropped with wheat, are harvested in May.

Based on these production forecasts, exports of coarse grains, oilseeds, and oilseed products are expected to increase. However, because of a sharp drop in wheat production and exports, total agricultural exports will likely fall more than 13 percent in 1986. [*Jorge Hazera (202) 786-1665*]

Countertrade Resumes in Nigeria

In October 1985, a month after coming to power, the new Government of Nigeria sharply reduced its use of countertrade to exchange petroleum for consumer goods and food. Subsequent Government reports indicated problems in determining the value of imports and in adjusting to changes in international prices. During January 1986, however, the billion-dollar countertrade agreement with

Brazil was resumed, and the Countertrade Renegotiation Panel was set up to revive suspended contracts with France, Austria, and Italy. The panel supports the revised strategy to conserve foreign exchange following declines in petroleum prices and the breakoff in December 1985 of 2 years of negotiations for a loan from the International Monetary Fund.

Nigeria's return to countertrade is being pursued cautiously because of the experience with valuing and pricing last year. It is emphasizing government-to-government agreements and is attempting to include export of Nigerian agricultural products, such as cocoa and rubber. Nigeria continues to limit agricultural imports, although French sugar and Brazilian cotton and sugar were important components of original countertrade contracts. [*Carl Mabbs-Zeno (202) 786-1680*]

Japan Lowers Plywood Tariffs

During U.S.-Japan MOSS (Market Oriented Sector Selective) consultations in January 1986, Japan announced it would reduce its tariffs on softwood plywood to 12.5 percent in April 1987, and further to 10 percent in April 1988. Tariffs on hardwood plywood will also be reduced in two stages, to 15 or 10 percent, depending on thickness.

Japanese imports of plywood were worth \$27 million in 1984, with 9 percent from the United States. In previous negotiations, the United States had requested the earliest possible reductions and eventual elimination of Japan's tariffs on plywood and other processed wood products. Most of U.S. forestry trade with Japan is in raw materials, such as logs and wood chips, but the U.S. industry believes reduced tariffs on processed products will encourage substantially greater U.S. exports in the short and long term. [*Lois A. Caplan (202) 786-1611*]

WORLD FOOD OUTPUT, CONSUMPTION, AND NEEDS

Record Food Production in 1985

Production of world food products hit a record during 1985, slightly above 1984 output. U.S. food output increased nearly 5 percent, about 1 percent above the 1982

World indices of food production

Country	1980	1981	1982	1983	1984	1985 1/	1985 1984	Growth rates 2/ 1950-85	1976-85
	1976-78 = 100							Percent	
Developed	105	108	110	103	113	113	0	1.8	1.4
United States	103	113	114	94	110	115	4.6	2.1	1.2
Canada	103	113	119	114	110	113	2.7	2.1	2.0
Japan	91	92	94	94	100	102	2.0	.6	-.1
Rep. S. Africa	106	120	107	92	101	108	6.9	3.1	.5
Oceania	96	104	95	116	112	111	-0.9	2.7	1.5
Western Europe	112	110	113	110	119	116	-2.5	1.9	2.0
Developing	107	112	114	117	121	125	3.3	2.9	2.7
S. and Cent. America	112	115	117	115	121	125	3.3	3.4	2.7
S.E. Asia	116	124	127	132	139	143	2.9	3.5	4.8
South Asia	102	110	108	123	123	124	.8	2.6	3.1
Middle East	104	105	114	113	115	120	4.3	3.2	2.3
North Africa	109	104	115	113	119	128	7.6	2.1	2.6
Sub-Sahara 3/	108	112	113	107	111	117	5.4	2.0	1.7
Centrally planned	101	102	109	113	118	118	0	2.8	2.2
USSR	94	91	97	102	102	103	.9	2.8	.4
Eastern Europe	97	102	104	104	111	109	-1.8	2.3	1.1
China	118	123	135	145	154	153	-.1	3.3	5.7
World	105	107	111	110	117	118	.9	2.4	2.1

1/ Preliminary. 2/ Annual compound growth rates computed by least squares method. 3/ Excludes Republic of South Africa.

record. Soviet food output sustained the same level of the past 2 years and about 3 percent lower than the 1978 record. After 3 consecutive years of adding over 10 percent more food products, China's production slipped slightly from the 1984 high. Food production in both Eastern and Western Europe was about 2 percent below the 1984 record. Most other regions of the world increased food output.

After several drought years and civil strife that retarded agricultural activity, food production in Sub-Saharan Africa reached a new high of more than 7 percent above the past 3-year average. Ethiopia, with a very low food supply in 1984, produced in excess of 5 percent more last year, but was still slightly below the past 3-year average. North African countries increased average food output nearly 8 percent.

World food production has gained approximately 2 percent annually over the past 10 years. The developing countries as a group have added 2.7 percent more per year, while the developed and centrally planned groups increased output 1.4 and 2.2 percent, respectively.

Per Capita Food Output Sustained

World population at mid-1985 was approximately 4.86 billion, up more than 1.6 percent, or 78 million, from a year earlier. Increases in population offset the estimated 2-percent gain in world food production and kept the per capita level of available food about the same as the 1984 record.

Per capita food production has declined over the past 10 years in 50 percent of the 111 countries reported, including 29 in Africa. The world has maintained a slight positive growth rate (0.4 percent) in per capita food production over the same period, primarily because of the large increase in China in each of the past 4 years. World output per capita, excluding China, declined 0.2 percent annually.

Food Composition Changing

The composition of food production has made some shifts over the past 35 years in various regions of the world. Although slight changes in world food composition have occurred in some regions, cereals, oilseeds, and meats have increased significantly, while root crops and milk have decreased.

World indices of per capita food production

Country	1980	1981	1982	1983	1984	1985 1/	1985 1984	Growth rates 2/	
								1950-85	1976-85
	1976-78 = 100							Percent	
Developed	103	105	106	99	107	107	0	0.8	0.7
U.S.	99	108	108	89	102	107	4.9	.9	.2
Canada	100	108	113	106	102	104	2.0	.4	.9
Japan	88	89	91	90	95	96	1.0	-.4	-.8
Rep. S. Africa	99	109	95	79	85	89	4.7	.6	-1.9
Oceania	93	100	89	107	103	101	-2.0	.9	.3
W. Europe	111	108	112	108	117	113	-3.5	1.3	1.7
Developing	100	102	101	101	102	103	.9	.5	.3
S. and Cent. America	104	105	104	100	103	103	0	.8	.4
S.E. Asia	108	113	113	115	119	120	.8	1.2	2.5
South Asia	96	101	96	107	105	104	-1.0	.4	.8
Middle East	96	94	99	96	95	96	1.0	.4	.5
North Africa	100	92	99	95	97	102	5.2	.2	-.3
Sub-Sahara 3/	99	100	98	90	91	93	2.2	-.5	-1.2
Centrally planned	98	98	103	106	109	108	-1.0	1.1	1.0
USSR	92	88	93	97	96	96	0	1.5	-.4
Eastern Europe	95	99	101	100	107	104	-2.8	1.6	.6
China	114	117	126	134	142	140	-1.4	1.4	4.5
World	99	100	102	100	104	104	.0	.6	.4

1/ Preliminary. 2/ Annual compound growth rates computed by least squares method. 3/ Excludes Republic of South Africa.

Over the past 35 years, U.S. cereal production has increased from about 23 to 28 percent of all U.S. foods, and oilseeds from 4 to 11 percent, while milk decreased from 19 to 13, and eggs from nearly 7 to 4 percent.

Asia, dominated by cereal production, reduced the proportion of cereals for a higher percentage of meats, primarily chicken. European countries have also increased their share of meat products and reduced by half the share of root and tuber output.

Sugar's share of total food production has gained slightly in every region throughout the world, but pulses, and roots and tubers, traditional staple food products, have decreased. Future sugar output is not expected to increase as it did in the past, because of the increased use of other sweeteners. The higher growth of food products such as oilseeds and meats indicates a shift in demand to more high-protein and high-valued products to replace some of the traditional root and pulse crops.

Regional Shares of Output Shifting

The United States is the leader in oilseed production, contributing 34 percent of the

world's total, and is also a large producer of cereals and animal products. Nevertheless, U.S. meat production has fallen from 26 percent of the world's total in the 1950's to 18 percent in 1985. Milk production has dropped from 22 to 14 percent, and eggs from 38 to about 15 percent. Animal product production in the Soviet Union, China, and much of Asia is accounting for an increasing percent of total food output.

During 1983-1985, the United States produced about 14 percent of the world's food output, down from 18 percent 35 years ago. But it had only 5 percent of the world's population. In contrast, South and East Asia combined and China each produced about the same share of the food supply as the United States but had around one-third and one-fifth of the world's population.

Many factors beyond weather contribute to production changes. Higher incomes; relationships between various foods and health hazards; availabilities of production inputs and markets; changes in price relationships among commodities; consumer preferences; and Government policies, such as trade restrictions, price supports, acreage

allotments, and marketing quotas, have contributed to shifts in country and regional production patterns. [Boyd Chugg (202) 786-1624]

U.S. Cereals Buttress Food Availability

Per capita world food production has generally increased over the past decade, even in many of the developing countries where population has expanded very rapidly, in spite of notable exceptions that include Sub-Saharan Africa. What has been the U.S. contribution to this increased availability of food? The United States is the major producer and exporter of cereals, which make up about 30 percent of total world food production. It produces 19 percent of all cereals, but needs only 63 percent of this production for domestic use. The remainder is exported or goes into stocks.

Cereal imports from the United States have significantly increased the availability of food in the developing countries. These countries consume 33 percent of the cereals in the world, 5 percent more than their share of world production.

The developing countries have been a rapidly growing market and presently import 46 percent of U.S. cereal exports. The centrally planned and developed countries, declining markets for U.S. cereals in recent years, presently import 21 and 27 percent, respectively.

The large and growing markets for U.S. cereals in the developing countries have not offset the loss of markets in the developed and centrally planned countries. The net loss of overseas markets, combined with increased

U.S. production, has caused rapid accumulation of food surpluses in the United States. [Gary Vocke (202) 786-1705]

Meat's Importance in World Diets

The proportion of meat in any individual's diet varies greatly among people within a region and among regions. A variety of factors—economic, religious, climatic, social, and health—play a critical role in consumption patterns. A country's or region's consumption is not necessarily a typical diet, rather it is a melding into a simple average the consumptions of those who, for various reasons, eat vastly different amounts and types of food. However, the use of averages does not prevent comparisons between countries or regions, or the painting of a picture of relative dietary differences.

Pork Leads Caloric Meat Consumption

One measure of diets is the calorie, which expresses the heat- or energy-producing value of foods. An analysis of caloric consumption will not give comparative volumes of meat consumed, rather comparative energy values.

For example, a pig carcass in the United States produces more calories per unit of weight than a beef carcass. Fat's higher caloric value and how the carcasses are trimmed account for much of the difference. Therefore, while more beef is consumed than pork, the caloric value of pork is higher. Likewise, chicken meat, with its low fat content, accounts for a proportionally lower share of the meat calories than of pounds of meat consumed.

In the United States, an average of 3,641 calories from all food was consumed per person per day during 1979-1981. Few countries surpassed this, the majority of them in Western Europe. Europe, on average, consumes 3,454 calories, followed by the USSR at 3,360. South Asia and Africa (excluding North and South Africa) are the lowest consumers, with 2,048 and 2,186, respectively. Because of the large populations in the countries with lower average caloric consumption, the average for the world is only 2,361.

World cereal production and utilization, 1976-85

Country	Prod- uction	Utili- zation	Imports from U.S.	Stocks
Percent change 1/				
World	2.2	2.0	-0.2	2.5
Developing	2.8	3.2	4.8	1.3
Centrally planned	1.4	1.6	-1.6	-7.2
Developed	2.4	1.2	-4.6	4.1
U.S.	2.1	2.2	---	17.8

1/ Annual compound rates.

Daily per capita caloric consumption, 1961-71 average

Country	Total	Vegetable products	Animal products	Total meat 1/	Beef 2/	Pork	Lamb 3/	Poultry	Other 1/
-----Calories-----				-----Percent of total meat-----					
North America	3,612	2,298	1,314	741	38.1	46.4	0.7	13.0	1.9
U.S.	3,641	2,325	1,316	750	38.1	46.1	.7	13.1	2.0
Europe	3,454	2,342	1,115	478	23.7	57.9	3.7	9.4	5.3
EC-10	3,480	2,296	1,189	532	25.6	55.7	4.0	8.5	6.1
Other W. Europe	3,295	2,303	992	462	19.7	61.5	3.6	10.7	4.5
Eastern Europe	3,495	2,459	1,036	376	21.0	61.6	2.9	11.1	3.4
USSR	3,360	2,489	871	311	55.9	26.0	4.5	9.6	3.9
Oceania 4/	3,146	2,007	1,139	616	41.6	22.3	22.4	10.4	3.3
Latin America	2,644	2,191	452	214	56.4	15.8	2.4	15.8	5.2
Asia	2,335	2,130	205	102	9.2	72.9	5.8	8.1	3.9
Middle East	2,936	2,543	393	136	20.3	.9	46.2	25.5	7.2
South	2,048	1,935	113	11	24.9	8.1	40.7	13.1	13.2
Japan	2,852	2,263	590	181	14.4	59.1	2.8	18.2	5.5
China	2,426	2,180	245	184	6.0	84.2	2.1	4.9	2.7
East & S. East	2,499	2,343	156	71	17.5	58.2	4.5	13.6	6.1
Africa	2,389	2,208	181	76	46.7	9.8	16.2	12.2	15.0
North	2,916	2,685	232	73	48.4	.6	21.1	18.5	11.3
South	2,861	2,432	429	225	53.3	12.9	14.2	13.3	6.2
Other	2,186	2,045	141	63	43.8	11.9	15.4	9.6	19.3
World	2,361	2,012	349	156	27.1	53.1	5.4	9.7	5.0

1/ Includes offal. 2/ Includes veal. 3/ Includes mutton and goat meat. 4/ Australia and New Zealand.

SOURCE: FAO, Food Balance Sheets, 1979-81 average.

In the meat and offal category, the majority of the calories come from pork, at 53 percent; followed by beef and veal, 27 percent; poultry meat, 10; lamb, mutton, and goat, 5; and other meat and offal, 5 percent.

While pork's share of the meat calories is very high in China, Japan, East and Southeast Asia, and Europe it is almost nonexistent in North Africa and the Middle East. Beef and veal (including buffalo) is predominant in Latin America, Oceania, and Africa. Lamb and mutton are consumed in large quantities in only a few places in the world, mainly Oceania, North Africa, the Middle East, and South Asia. Likewise goat meat accounts for a large share of the meat and offal calories in only a few regions—South Asia, the Middle East, and Africa.

Poultry meat consumption is more important in the Middle East, Japan, North Africa, and Latin America and, unlike the other meats, does not exhibit large swings between the countries. Poultry meat accounts for between 5 to 26 percent of a region's meat calories-- a much narrower band than beef, which accounts for 6 percent of the meat calories in China to 56 percent in Latin America. Pork ranges from 84 percent of

China's meat calories to 1 percent in North Africa and the Middle East.

High Incomes Equal More Meat

Animal products account for 15 percent of the world's average daily caloric consumption. Of this, 7 percentage points come from meat and offals, 4 points for milk, 2 points for animal fats and oils, and 1 point each for eggs and fish. Regions with over 30 percent of their calories from animal products are Oceania, North America, and Europe. These regions have the highest per capita gross national product, and generally the link between incomes and meat consumption is well established.

In the United States, 36 percent of the calories come from animal products, with over half of this from meat. In Europe, 32 percent of the calories are from animal products, but only 43 percent of this is from meat and offal. Animal products make up only 26 percent of the caloric consumption in the USSR, and meat accounts for only 36 percent of the animal products.

At the other end of the scale, the low-income economies-- mainly in Asia and

Central Africa—are the lowest per capita meat consumers. They have the greatest percentage of the labor force engaged in agriculture and also have the largest share of agriculture in gross domestic product. Those regions with the lowest per capita meat consumption are also generally those areas with the highest birth and total fertility rates. In addition, life expectancy is lower.

South, East, and Southeast Asia have only 6 percent of their daily caloric consumption coming from animal products. East and Southeast Asia consume 45 percent of their animal product calories from meat, while South Asia gets only 9 percent. Africans consume 8 percent of their calories from animal products, but a substantial amount (42 percent) of the animal product calories are from meat.

Factors Restricting Meat Consumption

Religious beliefs have an impact on meat consumption. In nations predominately Moslem and Jewish, primarily in North Africa and the Middle East, pork consumption is practically nonexistent. No meat is consumed by strict Hindus, found concentrated in South Asia. Consumption of meat in these areas occurs primarily among small religious minorities.

Other negative factors are population pressures that can force the intense use of every inch of land for cultivation of crops, making the luxury of pastures carrying ruminants, or feeding their limited calories of crop production to pigs or chickens, unacceptable. However, pigs and chickens are good scavengers and are often grown in countries with a limited land base. These operations are not like the confinement operations found in industrial countries. As some countries develop their meat production capacity, it is usually with a poultry industry, because of poultry's low feed-to-meat conversion ratio.

Lack of foreign exchange or credit limits feed grain imports, as well as purchases of imported meat. For example, chicken backs and wings would be imported if a country could not afford the meatier parts of whole chickens, and chickens will be imported if beef is too expensive.

Most countries would prefer to import the needed feed ingredients and produce their own meat to benefit livestock producers in their own countries. However, limited development of a meat industry precludes this. Also, if there is a temporary shortfall in domestic production, it would be more expedient to import what is needed.

Lack of adequate transportation also limits countries' ability to move imported meat or feed grains for domestic production of meat. Lack of refrigeration also limits the types of meat (and other animal products) available in a particular area. Small animals, such as chickens, lambs, goats, and rabbits, are preferred in areas where refrigeration is limited.

Climatic conditions are limiting factors in some areas. Dairies in Saudi Arabia have to be air conditioned, and poultry operations are shut down during the hottest part of the year. Grazing in dry areas, such as in western Australia, does occur, but the carrying capacity of the land is limited. Indeed, rainfall is so inadequate in many areas of the world that it precludes extensive crop cultivation, so limited grazing is the only viable alternative land use.

Disease, pests, and predators also reduce some areas' animal production capacity. Developing countries, in particular, are unable to provide the same quality of veterinary services as the high-income countries. Not only are insufficient numbers of technicians trained, but medications and immunizations are either unavailable or too expensive. Lack of education and extension services also inhibits animal husbandry training. [*Linda M. Bailey (202) 786-1691*]

Assessed Food Needs Continue To Decline

Generally improved economic conditions and declines in expected world commodity prices will diminish the cost of maintaining the status quo in food availability during 1986/87 in 69 developing countries. . Anticipated lower dollar-denominated petroleum import prices and lowered interest costs of debt are major factors. The 1986/87 decline in forecast extra-commercial food needs follows sharp declines in 1985/86. The

food assistance needed to meet minimum nutritional needs has also declined, except in Sub-Saharan Africa.

These measures are of food need in excess of recipient countries' capacity to import food commercially. Estimates of commercial import capacity assume continuance of the recent experience in international debt payment.

The status quo assessment assumes that food aid prevents food supplies, and hence consumption, from falling below recent levels. Meeting status quo food needs stabilizes per capita consumption by filling shortfalls in domestic production and import capacity. The nutrition-based assessment assumes that additional food is needed to close the gap between food availabilities and an internationally accepted minimum nutritional standard.

During 1985/86, the 69 developing countries will require about 9.7 million tons of cereals in excess of estimated commercial import capacity to maintain consumption at existing levels. This is around 2 million tons below estimated needs for 1984/85. Stock rebuilding to sustain recent levels in countries with above-trend production would require over 0.5 million tons of cereals above 1985/86 status quo consumption based needs.

To meet minimal nutritional standards, the countries would need 22.6 million tons of additional cereals, down more than 3 million tons from requirements in 1984/85. The decline in nutrition-based needs is largely due to the greatly improved food situation in Africa.

In many regions, nutrition-based needs are constrained by the inability to store or distribute large volumes of food imports. This problem remains acute in East and Southern Africa and in South Asia—particularly in Ethiopia, Mozambique, and Bangladesh. Physical restraints would allow the 69 countries to absorb only an estimated 18 million tons.

Regional Overview

Among individual regions, Africa's status quo consumption needs for 1985/86 are projected at 4.8 million tons of cereals, 3.8

million below estimated 1984/85 needs. In Sub-Saharan Africa, status quo needs are assessed at around 2.6 million tons for 1985/86, down 2.2 million from 1984/85. In East Africa, crop failures and civil disturbances have now generated needs of 1.5 million tons, down from actual food aid of over 3 million tons delivered in 1984/85. Assessed needs are down 918,000 tons from 1984/85 in Southern Africa, 1.1 million in West Africa, 700,000 in North Africa, and 60,000 in Central Africa. Stock rebuilding would add 400,000 tons to Africa's total status quo needs.

Status quo additional needs in Asia, now assessed at 3.6 million tons of cereals for 1985/86, are up 1.3 million tons from 1984/85 estimated needs. Greater needs in Bangladesh and Pakistan offset reduced needs in Sri Lanka and Vietnam. Overall, Asian stock adjustment requirements remain low relative to additional food needs. South Asia's 1985/86 status quo needs, projected at 2.5 millions tons of cereals, are 1.8 million greater than 1984/85's.

Latin American status quo additional cereal needs are now 970,000 tons below 1984/85. Total status quo food aid requirements of 446,000 tons reflect improved commercial import capacity resulting from larger financial reserves. This is mainly a consequence of reduced payment on outstanding debt, rather than reduced indebtedness. Debt-service payments will be high, even if countries reschedule their debt to the same extent as in previous years. South American stock adjustment requirements are high relative to food needs.

Total assessed nutrition-based consumption needs for the 69 countries are 22.6 million tons, compared with 26 million in 1984/85. This decline is largely due to the greatly improved food situation in Africa. In Asia, reduced needs in Bangladesh, Nepal, and Sri Lanka have more than offset significantly higher needs in India, Pakistan, and Kampuchea. Total nutritional needs in South Asia are now estimated at 11.2 million tons, up from 10.4 million in 1984/85. Southeast Asian nutrition-based additional food needs are down 930,000 tons. While nutrition-based food needs have risen in some African countries, overall Sub-Saharan nutrition-based needs are 8.2 million tons, compared with 10.4

Additional cereal needs to support consumption, stock adjustments,
and maximum absorbable cereal needs 1/

Region	Consumption		Consumption + Stocks		Maximum 2/
	Status quo	Nutrition-based	Status quo	Nutrition-based	
1,000 tons (cereal equivalent) 3/					
1984/85					
Total	11,745	25,767	13,450	27,472	4/
1985/86					
	November 1985 assessment				
Total	9,017	18,600	9,880	19,768	15,318
	July 1985 assessment				
Total	11,449	19,356	12,717	20,424	18,045
	February 1986 assessment				
Total Africa	4,849	8,209	5,247	8,561	7,699
North Africa	2,293	0	2,366	0	2,366
Sub-Saharan Africa	2,556	8,209	2,881	8,561	5,333
West Africa	456	1,519	591	1,691	1,342
Central Africa	208	276	219	288	290
East Africa	1,500	4,712	1,679	4,872	2,665
Southern Africa	392	1,702	392	1,710	1,036
Middle East	763	722	795	754	807
Total Asia	3,607	12,808	3,726	13,329	8,649
South Asia	2,525	11,178	2,440	11,494	6,814
Southeast Asia	1,082	1,630	1,286	1,835	1,835
Total Latin America	446	837	558	916	904
Caribbean	191	351	218	378	371
Central America	183	330	206	378	378
South America	72	156	134	160	155
Total	9,665	22,576	10,326	23,560	18,059
1986/87					
Total	8,107	16,921	8,760	17,736	12,960

1/ Imports consistent with maximum recent levels of consumption and food stocks. 2/ The sum of the greater of status quo or nutrition-based maximum absorbable needs of each country. 3/ Major cereals and the cereal equivalent of shortfalls in roots and tubers. 4/ Maximum absorbable needs not computed in 1984.

million tons in 1984/85. Latin America's 1985/86 nutrition-based needs are now assessed to be down 1.3 million tons from 1984/85, to 837,000.

In many regions, imports of nutrition-based needs are constrained by storage or distribution capacity. This continues to be particularly significant in East and Southern Africa, and in South Asia. Individual countries in which this constraint is of major importance are Ethiopia, Mozambique, and Bangladesh.

The Outlook for 1986/87

Status quo additional cereal needs are projected to decrease further in all regions in 1986/87, largely because of increased commercial import capacity generated by declining commodity prices. Overall needs may decline 1.57 million tons to 8.1 million in

1986/87. One million of this is projected to be in Africa, about equally divided between North Africa and the Sub-Sahara. South Asian needs are projected to decline 350,000 tons to 2.2 million, and Southeast Asia's may decline slightly to 1 million. Latin American status quo needs could decline only 141,000 tons in 1986/87. Total nutrition-based needs for all the countries are projected to decline to 16.9 million tons, but they could increase slightly in Sub-Saharan Africa. The major decrease, of 5.7 million tons, is in South Asia.

Factors Underlying Reduced Food Needs

The outlook for financial and economic conditions for many low-income developing countries appears to be improving. Key to this improved outlook over the projection period are the following: World petroleum prices have declined more than 30 percent for many petroleum sources; the dollar has continued to

fall in value, by more than 25 percent against some major currencies; international interest rates have remained stable, well below the high rates of the past several years; and world trade continues at a moderate pace. In addition, the price of imported foods is likely to fall in the near future because of new U.S. agricultural legislation sharply lowering grain price supports.

One major variable that had performed poorly for many low-income developing countries—prices for commodity exports—may be on the verge of improving. By the fourth quarter of 1985, the index of commodity prices published by the International Monetary Fund had begun to recover from its level at the end of the third quarter. Although this movement is very short-term, several factors suggest that the index may continue to rise.

First, the weakening of the dollar has lowered the prices of dollar-denominated commodities for most importers. Second, recovery in Europe is strengthening, albeit slowly. That region's continued recovery and recovery in Asia and North America require the raw materials typically exported by low-income regions. Third, drought damage in Brazil implies that prices for coffee will remain high during and perhaps beyond 1986.

The factor that will likely have the largest benefit for most developing countries is the decline in petroleum prices. This benefit will be strongest for those countries whose currencies are appreciating against the dollar, for example, those whose currencies are tied to the French franc. For them, the 20-percent drop in oil prices and the 27-percent appreciation of their currencies since February 1985 have lowered their import prices for petroleum by about half. This savings in foreign exchange is substantial, considering that petroleum imports for most of these countries represent 15 to 25 percent of total imports.

Large world supplies of oil and relatively weak demand suggest that petroleum prices will remain low through 1986/87, though policy changes by oil-exporting countries could alter this outlook. The appreciation of local currencies will likely help most low-income countries in a number of ways. Countries will

be able to import larger volumes of goods with the same level of local currency, since the decline in the dollar enables a country to purchase a larger volume of dollars with the same amount of local currency. Additional foreign exchange that is not used to purchase imports may be used to repay international debts. The possibility that foreign exchange earnings may be higher than expected and that interest rates will likely be lower than expected suggests that payments made to service international debts could be somewhat higher than currently projected.

Food Assistance in 1985/86

The Food and Agriculture Organization estimates that almost 11 million tons of cereal aid will be shipped from all donors in 1985/86 (July/June), about 13 percent less than in 1984/85. Low-income, food-deficit countries are expected to receive about 85 percent of this, the same share as last year. It is estimated that the United States will provide about two-thirds of all cereal aid, compared with the second largest donor, the European Community, which will provide almost 15 percent.

Under the Food Security Act of 1985, more resources under Title I are to be channeled through the recipient's private sector. The minimum share of Title I to be handled through Title III (Food for Development) agreements is reduced from 15 to 10 percent. The minimum required volume for Title II was increased from 1.7 million tons to 1.9 million.

The volume and types of commodities donated are expanded under Section 416 of the Agricultural Act of 1949, as amended. Minimum volumes of Commodity Credit Corporation dairy products, grains, and oilseeds are allowed, but may be waived under specified criteria.

The Food for Progress program, targeted to those countries committed to market-oriented agricultural policy reform, is authorized 75,000 tons of commodities under Section 416, and additional commodities may be financed under P.L. 480, Title I. The maximum volume authorized is 500,000 tons annually through fiscal 1990. [Ray Nightingale (202) 786-1705]

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